

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

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**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**DIRECTORS' REPORT**

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2003.

**PRINCIPAL ACTIVITY**

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a wholly-owned subsidiary of PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Malaysia Securities Exchange Berhad.

**RESULTS**

**RM**

|                         |                   |
|-------------------------|-------------------|
| Net profit for the year | <u>12,232,209</u> |
|-------------------------|-------------------|

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

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

**DIVIDENDS**

The amount of dividends paid by the Company since 31 December 2002 was as follows:

|   |                   |
|---|-------------------|
| In respect of the financial year ended 31 December 2003       |                   |
| Interim dividend of 10%, tax exempt, paid on 28 November 2003 | <u>10,000,000</u> |

The directors do not propose any final dividend for the financial year ended 31 December 2003.

## CORPORATE GOVERNANCE

### (a) Board Responsibility and Oversight

#### Board Responsibility

The Company is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism and integrity with the objectives of enhancing shareholders' value.

The Board of Directors ("the Board") is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and good corporate citizenship. The Board discharges this responsibility through compliance with the Insurance Act ("the Act") and Regulations, 1996, Bank Negara Malaysia ("BNM") Guidelines, JPI/GPI 1: Duties and Responsibilities of Directors and Chief Executive of Insurers, in addition to complying with the prescriptive requirements and adopting many of the best practices under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers and JPI 13/2003: Corporate Governance Standards.

The Board has overall responsibility for the strategic direction and development plans of the Company, as it effectively leads and controls the Company. The Board regularly meets and has a formal schedule of matters specifically reserved for its decision-making, which includes the review of corporate strategies, business operations and performance goals of the Company.

#### Board Balance and Meetings

As at the year end, the Board comprises a non-executive Chairman, two independent non-executive directors and two non-independent non-executive directors. In accordance with the Act, all directors are appointed to the Board after prior approval has been obtained from BNM.

The directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that are required for the management of the Company.

The Board met 12 times during the financial year and the attendance of the directors was as follows:

| Name                              | Number of Board meetings |     |
|-----------------------------------|--------------------------|-----|
|                                   | Attended                 | %   |
| Choi Siew Hong                    | 12/12                    | 100 |
| Tan Sri Dato' Nasrudin bin Bahari | 11/12                    | 92  |
| Keong Choon Keat                  | 12/12                    | 100 |
| Lai Wan                           | 12/12                    | 100 |
| Ng Hon Soon                       | 12/12                    | 100 |

## **Board Committees**

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely Audit Committee and Risk Management Committee which operate within clearly defined terms of reference. The Chairmen of the respective committees report to the Board on matters discussed at the meetings of the committee.

### **(i) Audit Committee**

The Audit Committee (“AC”) comprises three members - two independent non-executive Directors and a non-independent non-executive Director. The composition of the committee is as follows:

Tan Sri Dato’ Nasrudin bin Bahari (Chairman)  
Independent Non-Executive Director

Keong Choon Keat  
Independent Non-Executive Director

Lai Wan  
Non-Independent Non-Executive Director

The AC’s terms of reference include the reinforcement of the independence and objectivity of the internal audit function and the specification of its scope and results, the review of the Company’s financial statements which include the findings of the internal and external auditors and the disclosure of related party transactions, as well as making recommendation to the Board on the appointment and reappointment of the external auditors and the maintenance of a sound system of internal control to safeguard the Company’s investment and assets.

The AC met 10 times during the financial year.

### **(ii) Risk Management Committee**

The Risk Management Committee (“RMC”) comprises three members - two independent non-executive directors and a non-independent non-executive director. The composition of the committee is as follows:

Tan Sri Dato’ Nasrudin bin Bahari (Chairman)  
Independent Non-Executive Director

Keong Choon Keat  
Independent Non-Executive Director

Lai Wan  
Non-Independent Non-Executive Director

BNM's JPI 13/2003, requires the RMC 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 responsibilities of the RMC include the review, assessment and recommendation of the risk management strategies and risk tolerance, the adequacy of the policies and framework for identifying, measuring, monitoring and controlling risks, as well as the extent to which these are operating effectively through adequate infrastructure, resources and systems.

The RMC met 4 times, on a quarterly basis, during the financial year.

### **Nomination and Remuneration Committees**

With the approval given by BNM to the Company in July 2003, the Company has used the Nomination Committee ("NC") and Remuneration Committee ("RC") of the holding company, PacificMas Berhad ("PacificMas"), to discharge the responsibilities of these two committees. The terms of reference of both the NC and the RC are in compliance with the BNM's JPI:13/2003 on the functions and responsibilities of the committees for insurers.

#### **(i) Nomination Committee**

The composition of the nomination committee comprising the directors of PacificMas is as follows:

Tan Sri Dato' Wong Kum Choon (Chairman)  
Independent Non-Executive Director

Choi Siew Hong  
Non-Independent Non-Executive Director

Kol. (B) Dato' Ir. Cheng Wah  
Independent Non-Executive Director

Keong Choon Keat  
Independent Non-Executive Director

Wong Nang Jang  
Non-Independent Non-Executive Director

The NC is empowered by the PacificMas Board to consider and evaluate the appointment of new directors and directors to fill the seats on Board Committees of the Company and to recommend candidates to the Board and BNM for appointment and reappointment or reelection. In addition to that, the committee is also entrusted with the responsibility for both the appointment and evaluation of the chief executive officer and key senior officers of the Company.

In regard to the eligibility of the directors, the NC reviews the suitability and competencies and contributions of Directors for re-election and re-appointment before recommending them to the Board for submission to the BNM and shareholders for approval at the Annual General Meeting.

The NC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It will also assess on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual director. In addition, the NC will deliberate on the Board succession plan as and when appropriate.

The directors are also periodically nominated to attend training programmes in order to keep abreast with the current regulatory and business developments.

The NC met 2 times during the financial year.

**(ii) Remuneration Committee**

The composition of the committee comprising the directors of PacificMas is as follows:

Keong Choon Keat (Chairman)  
Independent Non-Executive Director

Choi Siew Hong  
Non-Independent Non-Executive Director

Sharriffudin Ahmad Taff  
Non-Independent Non-Executive Director

Wong Nang Jang  
Non-Independent Non-Executive Director

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate directors of the quality required to manage the business of the Company and to align the interest of the directors with those of the shareholders. In this respect, the RC is responsible for reviewing and recommending the remuneration packages of the executive directors and Chief Executive Officer of the Company. Executive Directors will play no part in decisions on their own remuneration. In addition to that, the Committee is also entrusted with the responsibility of recommending specific remuneration packages for the Chief Executive Officer and key senior officers of the Company.

The RC met 3 times during the financial year.

**(b) Management Accountability**

The Company has an organisational structure with clearly defined lines of accountability and delegated authority to ensure proper identification of accountabilities and segregation of duties. The operational authority limits covering underwriting on risk acceptance, claims settlement and asset acquisition are reviewed and updated as appropriate. Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually.

None of the directors and senior management of the Company have any conflict of interest as referred to in Sections 54 and 55 of the Act.

**(c) Corporate Independence**

All material related party transactions have been disclosed in the financial statements.

**(d) Internal Controls and Operational Risk Management**

**(i) Board Responsibility**

The Board has overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company to provide reasonable assurance on effective and efficient operations, internal financial controls and compliance with laws and regulations. The Board acknowledges that there is a continuous process present for identifying, evaluating and managing the significant risks faced by the Company during the financial year under review. The Board requires the management to maintain a risk management framework for identifying, evaluating, monitoring and managing the risks assumed in order to achieve the Company's business objectives. This process is periodically reviewed by the Board. In furtherance of its duties, the Board has delegated specific responsibilities to the AC and RMC as part of the Company's internal control and risk management process.

**(ii) Enterprise Risk Management Framework**

A formal risk management framework has been put in place in the Company. The Company's Risk Management Unit ("RMU") is headed by the Acting Chief Executive Officer as the Risk Management Officer ("RMO") and consists of the Risk Management Coordinator and senior management executives in the Company. During the financial year, the risk management framework of the Company has been carried out through the following initiatives:

- (i) The RMU has reviewed and assessed on a quarterly basis all risks identified and reports its risk assessment results to the RMC and the Board for consideration.

- (ii) The RMU has identified significant risks faced by the Company such as business strategic risks and operational risks, and mitigating plans and control measures have been formulated and implemented to address these risks and they are monitored in terms of their timeliness and effectiveness.
- (iii) The RMU has maintained an updated database of all risks and controls in the form of detailed risk registers and individual risk profiles for the Company. The likelihood of the key risks occurring and their impact are periodically monitored and rated.

As stated under Board Committees of Board Responsibilities and Oversight, the Company has established a RMC on 25 June 2003, whose primary objective is to oversee the 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.

Apart from the above, the following key committees have also been set up to, among others, serve the objective of enhancing the risk management culture in the Company:

- (i) Corporate Disaster Recovery Planning Committee has been tasked to prepare and review the effectiveness of the Company's business continuity plan to support critical business operations. It serves to protect the business from the risk of material interruption or failure to its systems, processes, or material damages to its assets upon the occurrence of any disastrous events.
- (ii) The Information Technology Steering Committee reviews and recommends the Company's technology strategy as well as investment in IT resources.
- (iii) The Credit Control Committee reviews the trade receivables' recoverability and reconciliation position with third parties. The committee also advises on appropriate measures to improve existing credit control procedures and practices.

The Company operates in a business environment that is subject to regulatory purview and operational compliance requirement and reporting. The Company Secretary and senior management keep the Board informed of new laws and regulations with changes thereof as well as adoption of new accounting and insurance standards by the Company. To mitigate the compliance risk, the Company has designated a Compliance Unit responsible for placing adequate control measures to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines stipulated.



**(iii) Internal Audit Function**

The Company has outsourced the internal audit function to the Group Internal Audit ("GIA") department of the holding company, PacificMas, to provide the Board with independent assessment of the adequacy and integrity of the systems of internal control. The GIA reports directly to the AC of the Company. The formation of the AC and the GIA function are in compliance with the BNM's JPI 13: Guidelines on Audit Committee and Internal Audit Departments for Insurance Companies.

The GIA function adopts a systematic, disciplined risk-based audit methodology and prepares its audit strategy and plan based on the risk profiles of the business and functional departments of the Company. The internal audit activities are guided by a detailed annual audit plan approved by the AC.

The GIA independently reviews the risk exposures and control processes on governance, operations and information systems implemented by the Company. In 2003, the GIA reported 10 times to the AC. The GIA reports are tabled at the AC meeting and the findings are reviewed with the management. Internal auditors follow-up with the management to ensure that recommendations to improve controls and mitigate risks are implemented. These initiatives, together with the management's adoption of the external auditors' recommendations for improvement on internal controls noted during their audit, provide reasonable assurance that necessary control procedures are in place. The AC submits its reports to the Board.

**(e) Public Accountability**

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company had taken the appropriate steps to ensure that all its insurance policies issued or delivered to new policyholders alert them to the existence of Insurance Mediation Bureau and BNM's Customer Service Bureau. The bureaus had been set up with the view to providing alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

**(f) Financial Reporting**

The directors are responsible for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with applicable Approved Accounting Standards in Malaysia, the provisions of the Companies Act, 1965 and the Insurance Act and Regulations, 1996.

As at 31 December 2003, the Company has unreconciled balances which have exceeded the 2% limit of the total balances in the respective categories as disclosed in the financial statements.

## **DIRECTORS**

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

Choi Siew Hong  
Tan Sri Dato' Nasrudin bin Bahari  
Keong Choon Keat  
Lai Wan  
Ng Hon Soon

In accordance with Article 65 of the Company's Articles of Association, Lai Wan retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Choi Siew Hong, being over the age of seventy (70) years be and is hereby recommended to the shareholders for re-appointment as a director of the Company at the forthcoming Annual General Meeting to hold office until the conclusion of the next Annual General Meeting pursuant to Section 129(6) of the Companies Act, 1965.

## **DIRECTORS' BENEFITS**

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 17 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

**DIRECTORS' INTERESTS**

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

|  | Number of Ordinary Shares of RM1 each |        |      | 31 December<br>2003 |
|--|---------------------------------------|--------|------|---------------------|
|  | 1 January<br>2003                     | Bought | Sold |                     |
| <b>Holding company - PacificMas Berhad</b> |                                       |        |      |                     |
| Choi Siew Hong                             |                                       |        |      |                     |
| - direct interest                          | 87,000                                | -      | -    | 87,000              |
| - indirect interest                        | 114,000                               | -      | -    | 114,000             |
| Tan Sri Dato' Nasrudin bin Bahari          |                                       |        |      |                     |
| - direct interest                          | 3,000                                 | -      | -    | 3,000               |
| - indirect interest                        | 1,500                                 | -      | -    | 1,500               |
| Lai Wan                                    |                                       |        |      |                     |
| - direct interest                          | 43,000                                | -      | -    | 43,000              |
| - indirect interest                        | 3,000                                 | -      | -    | 3,000               |
| Ng Hon Soon                                |                                       |        |      |                     |
| - indirect interest                        | 5,000                                 | -      | -    | 5,000               |

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

**OTHER STATUTORY INFORMATION**

- (a) Before the Balance Sheet and Income Statement of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

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

- (g) Before the Balance Sheet and Income Statement 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.

**SIGNIFICANT EVENTS**

The significant events are as disclosed in Note 27 to the financial statements.

**AUDITORS**

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

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

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia  
20 February 2004

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

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

We, CHOI SIEW HONG and TAN SRI DATO' NASRUDIN BIN BAHARI, being two of the directors of THE PACIFIC INSURANCE BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 15 to 48 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2003 and of the results and the cash flows of the Company for the year then ended.

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

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia  
20 February 2004

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

I, TAN SIEW HOCK, being the Officer primarily responsible for the financial management of THE PACIFIC INSURANCE BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 15 to 48 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by )  
the abovenamed TAN SIEW HOCK )  
at Kuala Lumpur in Wilayah Persekutuan )  
on 20 February 2004 ) TAN SIEW HOCK

Before me,

91603-K

**REPORT OF THE AUDITORS TO THE MEMBER OF  
THE PACIFIC INSURANCE BERHAD  
(Incorporated in Malaysia)**

We have audited the accompanying financial statements set out on pages 15 to 48. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Company as at 31 December 2003 and of the results and the cash flows for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG  
AF: 0039  
Chartered Accountants

PUSHPANATHAN A/L S.A. KANAGARAYAR  
No: 1056/03/05(J/PH)  
Partner

Kuala Lumpur, Malaysia  
20 February 2004

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2003**

|   | Note | 2003<br>RM         | 2002<br>RM         |
|---|------|--------------------|--------------------|
| <b>ASSETS</b>                                       |      |                    |                    |
| Property and equipment                              | 3    | 2,579,532          | 3,350,730          |
| Deferred tax assets                                 | 4    | 525,154            | 957,170            |
| Investments   | 5    | 213,971,152        | 210,782,677        |
| Loans   | 6    | 3,715,387          | 3,525,160          |
| Receivables   | 7    | 22,894,745         | 20,853,859         |
| Cash and bank balances                              |      | 1,823,823          | 965,394            |
| <b>TOTAL ASSETS</b>                                 |      | <u>245,509,793</u> | <u>240,434,990</u> |
| <b>LIABILITIES</b>                                  |      |                    |                    |
| Provision for outstanding claims                    | 8    | 66,181,003         | 68,881,979         |
| Payables  | 9    | 18,321,769         | 21,468,180         |
| Tax payable   |      | 1,420,779          | 1,025,984          |
| Staff retirement gratuities                         | 10   | 763,434            | 658,249            |
| <b>TOTAL LIABILITIES</b>                            |      | <u>86,686,985</u>  | <u>92,034,392</u>  |
| <b>Unearned premium reserves</b>                    | 11   | <u>30,555,474</u>  | <u>22,365,473</u>  |
| <b>SHAREHOLDER'S FUND</b>                           |      |                    |                    |
| Share capital                                       | 12   | 100,000,000        | 100,000,000        |
| Retained profits                                    |      | 28,267,334         | 26,035,125         |
|   |      | <u>128,267,334</u> | <u>126,035,125</u> |
| <b>TOTAL LIABILITIES AND<br/>SHAREHOLDER'S FUND</b> |      | <u>245,509,793</u> | <u>240,434,990</u> |

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



**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

|  | Note  | Share<br>capital<br>RM | Distributable<br>Retained<br>profits<br>RM | Total<br>RM        |
|--|-------|------------------------|--|--------------------|
| <b>At 1 January 2002</b>               |       |                        |  |                    |
| As previously stated                   |       | 100,000,000            | 20,913,072                                 | 120,913,072        |
| Prior year adjustment                  | 22(b) | -                      | 765,976                                    | 765,976            |
| <b>At 1 January 2002 (as restated)</b> |       | <u>100,000,000</u>     | <u>21,679,048</u>                          | <u>121,679,048</u> |
| Net profit for the year                |       | -                      | 7,956,077                                  | 7,956,077          |
| Dividends                              | 13    | -                      | (3,600,000)                                | (3,600,000)        |
| <b>At 31 December 2002</b>             |       | <u>100,000,000</u>     | <u>26,035,125</u>                          | <u>126,035,125</u> |
| <b>At 1 January 2003</b>               |       |                        |  |                    |
| As previously stated                   |       | 100,000,000            | 25,077,955                                 | 125,077,955        |
| Prior year adjustment                  | 22(b) | -                      | 957,170                                    | 957,170            |
| <b>At 1 January 2003 (as restated)</b> |       | <u>100,000,000</u>     | <u>26,035,125</u>                          | <u>126,035,125</u> |
| Net profit for the year                |       | -                      | 12,232,209                                 | 12,232,209         |
| Dividends                              | 13    | -                      | (10,000,000)                               | (10,000,000)       |
| <b>At 31 December 2003</b>             |       | <u>100,000,000</u>     | <u>28,267,334</u>                          | <u>128,267,334</u> |

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

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

|                                   | Note | 2003<br>RM         | 2002<br>RM         |
|-----------------------------------|------|--------------------|--------------------|
| Operating revenue                 | 14   | <u>99,508,892</u>  | <u>80,079,303</u>  |
| Shareholder's fund:               |      |                    |                    |
| Investment income                 | 14a  | 1,296,694          | 1,393,375          |
| Other operating income            | 15   | 148,620            | 168,353            |
| Management expenses               | 16   | (78,984)           | 67,308             |
| Surplus transferred from          |      |                    |                    |
| General Insurance Revenue Account |      | <u>15,173,552</u>  | <u>8,929,847</u>   |
| Profit before taxation            |      | <u>16,539,882</u>  | <u>10,558,883</u>  |
| Taxation                          | 19   | <u>(4,307,673)</u> | <u>(2,602,806)</u> |
| Net profit for the year           |      | <u>12,232,209</u>  | <u>7,956,077</u>   |
| Earnings per share (sen)          | 21   |                    |                    |
| Basic                             |      | <u>12.2</u>        | <u>8.0</u>         |

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

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**THE PACIFIC INSURANCE BERHAD**  
(Incorporated in Malaysia)

**GENERAL INSURANCE REVENUE ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

| Note   | Fire       |             | Motor       |              | Marine,<br>Aviation and Transit |             | Medical & Health |              | Miscellaneous ("Misc.") |                      |                           |                           | Total        |              |              |
|--|------------|-------------|-------------|--------------|---------------------------------|-------------|------------------|--------------|-------------------------|----------------------|---------------------------|---------------------------|--------------|--------------|--------------|
|  | 2003<br>RM | 2002<br>RM  | 2003<br>RM  | 2002<br>RM   | 2003<br>RM                      | 2002<br>RM  | 2003<br>RM       | 2002<br>RM   | Others<br>2003<br>RM    | Others<br>2002<br>RM | Total Misc.<br>2003<br>RM | Total Misc.<br>2002<br>RM | 2003<br>RM   | 2002<br>RM   |              |
| Operating revenue                                      | 14         |             |             |              |                                 |             |                  |              |                         |                      |                           |                           | 98,212,198   | 78,685,928   |              |
| Gross premiums   | 14         | 17,504,911  | 16,689,750  | 22,463,467   | 21,595,704                      | 2,043,746   | 2,000,803        | 27,312,495   | 15,092,695              | 20,978,762           | 15,729,765                | 48,291,257                | 30,822,460   | 90,303,381   | 71,108,717   |
| Reinsurance  |            | (8,678,736) | (7,815,623) | (1,951,913)  | (2,895,562)                     | (1,804,833) | (1,673,617)      | (3,982,776)  | (2,689,007)             | (7,267,752)          | (6,312,225)               | (11,250,528)              | (9,001,232)  | (23,686,010) | (21,386,034) |
| Net premium  |            | 8,826,175   | 8,874,127   | 20,511,554   | 18,700,142                      | 238,913     | 327,186          | 23,329,719   | 12,403,688              | 13,711,010           | 9,417,540                 | 37,040,729                | 21,821,228   | 66,617,371   | 49,722,683   |
| (Increase)/decrease<br>in unearned<br>premium reserves | 11         | 272,873     | (593,815)   | (513,484)    | 2,517,158                       | 55,128      | 256,308          | (6,546,127)  | (1,360,258)             | (1,458,391)          | (699,216)                 | (8,004,518)               | (2,059,474)  | (8,190,001)  | 120,177      |
| Earned premium   |            | 9,099,048   | 8,280,312   | 19,998,070   | 21,217,300                      | 294,041     | 583,494          | 16,783,592   | 11,043,430              | 12,252,619           | 8,718,324                 | 29,036,211                | 19,761,754   | 58,427,370   | 49,842,860   |
| Net claims incurred                                    | 20         | (1,054,250) | (4,662,349) | (15,737,430) | (15,254,191)                    | (108,640)   | (397,852)        | (10,973,405) | (7,963,053)             | (5,151,553)          | (5,127,571)               | (16,124,958)              | (13,090,624) | (33,025,278) | (33,405,016) |
| Net commission   |            | (1,271,805) | (1,331,517) | (1,849,908)  | (1,958,431)                     | (14,127)    | 10,980           | (1,907,095)  | (1,075,772)             | (2,342,886)          | (1,716,194)               | (4,249,981)               | (2,791,966)  | (7,385,821)  | (6,070,934)  |
| Underwriting surplus<br>before management<br>expenses  |            | 6,772,993   | 2,286,446   | 2,410,732    | 4,004,678                       | 171,274     | 196,622          | 3,903,092    | 2,004,605               | 4,758,180            | 1,874,559                 | 8,661,272                 | 3,879,164    | 18,016,271   | 10,366,910   |
| Management expenses                                    | 16         |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | (16,039,581) | (16,032,450) |
| Underwriting<br>surplus/(deficit)                      |            |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | 1,976,690    | (5,665,540)  |
| Investment income                                      | 14a        |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | 7,908,817    | 7,577,211    |
| Other operating<br>income                              | 15         |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | 5,296,545    | 7,023,988    |
| Profit from operations                                 |            |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | 15,182,052   | 8,935,659    |
| Finance costs  | 18         |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | (8,500)      | (5,812)      |
| Transfer to Income<br>Statement                        |            |             |             |              |                                 |             |                  |              |                         |                      |                           |                           |              | 15,173,552   | 8,929,847    |

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

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2003**

|   | <b>2003</b>  | <b>2002</b>  |
|---|--------------|--------------|
|   | <b>RM</b>    | <b>RM</b>    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |              |              |
| Profit before taxation  | 16,539,882   | 10,558,883   |
| Adjustment for:   |              |              |
| Depreciation of property and equipment  | 1,234,838    | 1,139,791    |
| Loss/(gain) on disposal of property and equipment                                   | 6,519        | (70,238)     |
| Write off of property and equipment   | 13,154       | 305,032      |
| Write back of provision for diminution in value<br>of investments                   | (1,428,219)  | (3,439,695)  |
| Accretion of discounts, net of amortisation of premiums                             | (608,875)    | (593,719)    |
| Gain on disposal of investments   | (3,419,021)  | (3,572,089)  |
| Gain on disposal of an investment property  | (5,000)      | -            |
| Investment income   | (8,596,636)  | (8,376,867)  |
| Other interest income   | (148,620)    | (168,353)    |
| Interest expense  | 9,361        | 6,151        |
| Bad debt recovered, net of write off  | (3,048,078)  | (1,079,537)  |
| Provision for staff retirement gratuities   | 125,403      | 122,082      |
| Net increase/(decrease) in unearned premium reserves                                | 8,190,001    | (120,177)    |
| Profit/(loss) from operations before changes<br>in operating assets and liabilities | 8,864,709    | (5,288,736)  |
| Purchase of investments   | (57,860,603) | (44,526,591) |
| Proceeds from disposal/maturity of investments                                      | 84,269,807   | 60,161,895   |
| Proceeds from disposal of an investment property                                    | 105,000      | -            |
| Increase in loans   | (190,227)    | (62,276)     |
| Decrease in receivables   | 1,436,450    | 2,753,904    |
| (Increase)/decrease in fixed and call deposits                                      | (24,241,564) | 47,949,351   |
| Decrease in outstanding claims  | (2,700,976)  | (22,507)     |
| Decrease in payables  | (3,615,943)  | (488,621)    |
| Change in inter-company balances  | 243,348      | 374,452      |
| Cash generated from operations  | 6,310,001    | 60,850,871   |
| Investment income received  | 9,012,700    | 6,536,607    |
| Other interest received   | 148,620      | 168,353      |
| Interest paid   | (861)        | (339)        |
| Income taxes paid   | (4,100,000)  | (5,240,678)  |
| Staff retirement gratuities paid  | (20,218)     | (453,935)    |
| Net cash generated from operating activities  | 11,350,242   | 61,860,879   |

|   | <b>2003</b>         | <b>2002</b>         |
|---|---------------------|---------------------|
|   | <b>RM</b>           | <b>RM</b>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                     |                     |
| Purchase of property and equipment  | (483,863)           | (1,513,524)         |
| Proceeds from disposal of property and equipment                          | 550                 | 188,265             |
| Net cash used in purchase of business<br>from a fellow subsidiary*        | <u>-</u>            | <u>(58,650,211)</u> |
| Net cash used in investing activities                                     | <u>(483,313)</u>    | <u>(59,975,470)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                               |                     |                     |
| Dividends paid  | (10,000,000)        | (3,600,000)         |
| Finance cost  | <u>(8,500)</u>      | <u>(5,812)</u>      |
| Net cash used in financing activities                                     | <u>(10,008,500)</u> | <u>(3,605,812)</u>  |
| <b>NET INCREASE/(DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>           |                     |                     |
|   | 858,429             | (1,720,403)         |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF FINANCIAL YEAR</b>       | <u>965,394</u>      | <u>2,685,797</u>    |
| <b>CASH AND CASH EQUIVALENTS AT<br/>END OF FINANCIAL YEAR</b>             | <u>1,823,823</u>    | <u>965,394</u>      |
| <b>CASH AND CASH EQUIVALENTS COMPRISE:</b>                                |                     |                     |
| Cash and bank balances  | <u>1,823,823</u>    | <u>965,394</u>      |
| * Acquisition of business from a fellow subsidiary in financial year 2002 |                     |                     |
| Property and equipment  |                     | 610,544             |
| Investments   |                     | 93,733,631          |
| Loans   |                     | 51,876              |
| Receivables   |                     | 10,982,904          |
| Cash and bank balances  |                     | 839,820             |
| Deferred taxation   |                     | (54,600)            |
| Staff retirement gratuity   |                     | (375,735)           |
| Provision for outstanding claims  |                     | (28,750,159)        |
| Other payables  |                     | (11,370,586)        |
| Unearned premium reserves   |                     | <u>(6,177,664)</u>  |
| Total purchase consideration  |                     | 59,490,031          |
| Cash and bank balances acquired   |                     | <u>(839,820)</u>    |
| Net cash used in acquisition of business<br>from a fellow subsidiary      |                     | <u>58,650,211</u>   |

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

**THE PACIFIC INSURANCE BERHAD**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2003**

**1. CORPORATE INFORMATION**

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 6, Menara Prudential, No. 10, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The holding and ultimate holding company of the Company is PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Malaysia Securities Exchange Berhad.

The number of employees in the Company at the end of the financial year was 211 (2002: 204).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 19 February 2004.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation**

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

Assets and liabilities in the balance sheet relate to both the General Insurance Fund and the Shareholder's Fund.

During the financial year ended 31 December 2003, the Company has adopted the following Malaysian Accounting Standards Board ("MASB") Standards for the first time:

MASB Standard 25: Income Taxes

MASB Standard 29: Employee Benefits

The effects of adopting MASB 25 are summarised in the Statement of Changes in Equity and further information is disclosed in Note 22 to the financial statements. The adoption of MASB 29 has not given rise to any adjustments to the opening balances of retained profits of the prior and current years or to changes in comparatives.

**(b) Property and Equipment and Depreciation**

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

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

|                        |     |
|------------------------|-----|
| Office premises        | 2%  |
| Leasehold renovations  | 50% |
| Motor vehicles         | 20% |
| Furniture and fittings | 10% |
| Office equipment       | 10% |
| Computers              | 20% |

Upon the disposal of an item of property and equipment, the difference between the net disposal proceeds and the net carrying amount is charged or credited to the Income Statement/Revenue Account.

**(c) Investment Properties**

Investment properties consist of investments in land and buildings that are not occupied for use by the Company.

Investment properties are treated as long-term investments and are stated at cost and include related and incidental expenditure incurred less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(j). Investment properties are not depreciated.

Upon the disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is recognised in the Income Statement/Revenue Account.

**(d) Underwriting Results**

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

**(i) Premium income**

Premium income net of all reinsurances is recognised based on booking date and not on risk assumption date as recommended in MASB Standard 17: General Insurance Business. However, an adjustment is made to account for premiums by risk assumption dates at the end of the financial year.

Inward treaty reinsurance premiums are recognised on the basis of available periodic advices received from ceding insurers.

**(ii) Unearned premium reserves**

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

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

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

|   |          |
|---|----------|
| - Motor and bond                              | 10%      |
| - Fire, engineering, aviation and marine hull | 15%      |
| - Medical                                     | 10 - 15% |
| - Other classes                               | 20%      |
- 1/8th method for all other classes of overseas inward treaty business, with a deduction of 20% for commission
- non-annual policies are time-apportioned over the period of the risks

**(iii) Provision for claims**

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

Provision is also made for the probable cost of claims, together with related expenses incurred but not reported (“IBNR”) at Balance Sheet date, based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development pattern.

**(iv) Acquisition costs**

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

**(v) Allowance for bad and doubtful debts**

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



**(e) Other Revenue Recognition**

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

**(i) Interest income**

Interest income is recognised on a time proportion basis that takes into account the effective yield of the asset.

**(ii) Gross dividend income**

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

**(iii) Rental income**

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

**(f) Foreign Currencies**

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

**(g) Income Tax**

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

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

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

Prior to the adoption of MASB 25: Income Taxes on 1 January 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation. The adoption of MASB 25 has been applied retrospectively and comparatives have been restated.

#### **(h) Cash and Cash Equivalents**

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise cash and bank balances but do not include fixed and call deposits.

The Cash Flow Statement has been prepared using the indirect method.

#### **(i) Provisions for Liabilities**

Provisions for liabilities are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

#### **(j) Impairment of Assets**

At each Balance Sheet date, the Company reviews the carrying amounts of its assets, other than financial assets, to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of the net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the Income Statement/Revenue Account immediately. Reversal of impairment losses recognised in prior years is recognised when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of depreciation) had no impairment loss been recognised. The reversal is recognised in the Income Statement/Revenue Account immediately.

**(k) Employee Benefits**

**(i) Short-term benefits**

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

**(ii) Defined contribution plan**

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the Income Statement/Revenue Account as incurred.

**(iii) Staff retirement gratuities**

The Company operates an unfunded defined contribution staff retirement gratuities scheme. Provision for staff retirement gratuities is charged to the Income Statement/Revenue Account in the year to which they relate.

The provision is an amount contributed by the Company, in addition to the statutory percentage required in respect of EPF and is calculated based on the current emoluments of eligible employees with less than five years length of completed service. The provision for staff retirement gratuities of those eligible employees with more than five years of service is transferred to the EPF upon their resignation if they have not reached retirement age yet.

Prior to the adoption MASB 29: Employee Benefits on 1 January 2003, no liability was recognised for the obligations in respect of short-term employee benefits in the form of accumulating compensated absences. The adoption of MASB 29 has not given rise to any adjustments to the opening balances of retained profits of the prior and current years or to changes in comparatives.

**(l) Financial Instruments**

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

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

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

**(i) Malaysian Government Securities and other approved investments**

Malaysian Government Securities and other approved 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 charged or credited to the revenue account.

**(ii) Quoted investments**

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

**(iii) Government guaranteed bonds and unquoted corporate bonds**

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

**(iv) Receivables**

Receivables are carried at anticipated realisable values.

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

**(v) Payables**

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

**(vi) Equity instruments**

Ordinary shares are classified as equity.

Dividends on ordinary shares are recognised and reflected in the Statement of Changes in Equity in the period in which they are declared.

### 3. PROPERTY AND EQUIPMENT

|   | <b>Office<br/>premises and<br/>leasehold<br/>renovations<br/>RM</b> | <b>Motor<br/>vehicles<br/>RM</b> | <b>Furniture,<br/>fittings, office<br/>equipment and<br/>computers<br/>RM</b> | <b>Total<br/>RM</b> |
|---|---|----------------------------------|---|---------------------|
| <b>Cost</b>                             |   |                                  |   |                     |
| At 1 January 2003                       | 1,377,240   | 390,671                          | 7,074,519   | 8,842,430           |
| Additions                               | 117,056   | -                                | 366,807   | 483,863             |
| Disposals                               | -   | -                                | (28,850)  | (28,850)            |
| Write-offs                              | -   | -                                | (136,254)   | (136,254)           |
| Reclassification                        | (16,879)  | 1                                | 62,006  | 45,128              |
| At 31 December 2003                     | 1,477,417   | 390,672                          | 7,338,228   | 9,206,317           |
| <b>Accumulated Depreciation</b>         |   |                                  |   |                     |
| At 1 January 2003                       | 863,351   | 66,181                           | 4,562,168   | 5,491,700           |
| Charge for the year                     | 477,960   | 68,819                           | 688,059   | 1,234,838           |
| Disposals                               | -   | -                                | (21,781)  | (21,781)            |
| Write-offs                              | -   | -                                | (123,100)   | (123,100)           |
| Reclassification                        | 59,050  | 1                                | (13,923)  | 45,128              |
| At 31 December 2003                     | 1,400,361   | 135,001                          | 5,091,423   | 6,626,785           |
| <b>Net Book Value</b>                   |   |                                  |   |                     |
| At 31 December 2003                     | 77,056  | 255,671                          | 2,246,805   | 2,579,532           |
| At 31 December 2002                     | 513,889   | 324,490                          | 2,512,351   | 3,350,730           |
| <b>Depreciation charge<br/>for 2002</b> | 484,040   | 46,016                           | 609,735   | 1,139,791           |

- (a) Included in property and equipment of the Company are fully depreciated assets which are still in use, the costs of which are:

|   | <b>2003<br/>RM</b> | <b>2002<br/>RM</b> |
|---|--------------------|--------------------|
| Office premises and leasehold renovations           | 1,333,507          | 344,191            |
| Motor vehicles                                      | 12,039             | 8,011              |
| Furniture, fittings, office equipment and computers | 3,267,099          | 2,676,964          |
|   | <u>4,612,645</u>   | <u>3,029,166</u>   |

- (b) The net book value of motor vehicles held under finance lease arrangement with Pac Lease Sdn. Bhd., a fellow subsidiary, is RM122,174 (2002: RM159,134).

**4. DEFERRED TAX ASSETS/(LIABILITIES)**

|  | <b>2003</b>    | <b>2002</b>    |
|--|----------------|----------------|
|  | <b>RM</b>      | <b>RM</b>      |
| At 1 January                                 | 957,170        | 765,976        |
| Recognised in the Income Statement (Note 19) | (432,016)      | 191,194        |
| At 31 December                               | <u>525,154</u> | <u>957,170</u> |

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

**2003****Deferred Tax Liabilities**

|                                    | <b>Accelerated<br/>capital<br/>allowances</b> | <b>Total</b>     |
|------------------------------------|---|------------------|
|                                    | <b>RM</b>                                     | <b>RM</b>        |
| At 1 January                       | (459,610)                                     | (459,610)        |
| Recognised in the Income Statement | 29,098  | 29,098           |
| At 31 December                     | <u>(430,512)</u>                              | <u>(430,512)</u> |

**Deferred Tax Assets**

|                                       | <b>Receivables</b> | <b>Staff<br/>retirement<br/>gratuities</b> | <b>Others</b> | <b>Total</b>   |
|---------------------------------------|--------------------|--|---------------|----------------|
|                                       | <b>RM</b>          | <b>RM</b>                                  | <b>RM</b>     | <b>RM</b>      |
| At 1 January                          | 1,232,470          | 184,310                                    | -             | 1,416,780      |
| Recognised in the Income<br>Statement | (517,137)          | 29,452                                     | 26,571        | (461,114)      |
| At 31 December                        | <u>715,333</u>     | <u>213,762</u>                             | <u>26,571</u> | <u>955,666</u> |

**2002****Deferred Tax Liabilities**

|                                    | <b>Accelerated<br/>capital<br/>allowances</b> | <b>Total</b>     |
|------------------------------------|---|------------------|
|                                    | <b>RM</b>                                     | <b>RM</b>        |
| At 1 January                       | (439,702)                                     | (439,702)        |
| Recognised in the Income Statement | (19,908)                                      | (19,908)         |
| At 31 December                     | <u>(459,610)</u>                              | <u>(459,610)</u> |

**Deferred Tax Assets**

|                                       | <b>Receivables<br/>RM</b> | <b>Staff<br/>retirement<br/>gratuities<br/>RM</b> | <b>Others<br/>RM</b> | <b>Total<br/>RM</b> |
|---------------------------------------|---------------------------|---|----------------------|---------------------|
| At 1 January                          | 1,033,655                 | 172,023   | -                    | 1,205,678           |
| Recognised in the Income<br>Statement | 198,815                   | 12,287  | -                    | 211,102             |
| At 31 December                        | <u>1,232,470</u>          | <u>184,310</u>                                    | <u>-</u>             | <u>1,416,780</u>    |

**5. INVESTMENTS**

|   | <b>2003</b>        |   | <b>2002</b>        |  |
|---|--------------------|---|--------------------|--|
|   | <b>Cost<br/>RM</b> | <b>Market/<br/>indicative<br/>value*<br/>RM</b> | <b>Cost<br/>RM</b> | <b>Market<br/>indicative<br/>value*<br/>RM</b> |
| Investment properties, at cost  | <u>959,450</u>     | <u>959,450</u>                                  | <u>1,059,450</u>   | <u>1,059,450</u>                               |
| Malaysian Government<br>Securities  | 13,260,760         |   | 31,884,380         |  |
| Amortisation of premiums net<br>of accretion of discounts                   | <u>(435,692)</u>   |   | <u>(1,229,475)</u> |  |
|   | <u>12,825,068</u>  | <u>13,141,780</u>                               | <u>30,654,905</u>  | <u>31,741,064</u>                              |
| Malaysian Government<br>Investment Issue                                    | 4,656,000          |   | -                  |  |
| Accretion of discounts  | <u>61,529</u>      |   | <u>-</u>           |  |
|   | <u>4,717,529</u>   | <u>4,690,000</u>                                | <u>-</u>           | <u>-</u>                                       |
| Quoted in Malaysia:<br>Shares, warrants and<br>convertible loan<br>stocks** | 3,488,111          |   | 19,422,318         |  |
| Provision for diminution<br>in value  | <u>(20,968)</u>    |   | <u>(479,606)</u>   |  |
|   | <u>3,467,143</u>   | <u>3,467,143</u>                                | <u>18,942,712</u>  | <u>18,942,712</u>                              |
| Unit trusts***  | 11,507,367         |   | 10,405,145         |  |
| Provision for diminution<br>in value  | <u>-</u>           |   | <u>(969,581)</u>   |  |
|   | <u>11,507,367</u>  | <u>12,067,657</u>                               | <u>9,435,564</u>   | <u>9,435,564</u>                               |

|  | 2003               |                                       | 2002               |                                      |
|--|--------------------|---------------------------------------|--------------------|--------------------------------------|
|  | Cost<br>RM         | Market/<br>indicative<br>value*<br>RM | Cost<br>RM         | Market<br>indicative<br>value*<br>RM |
| Unquoted:  |                    |                                       |                    |                                      |
| Danamodal bonds  | -                  | -                                     | 9,164,700          | 10,751,400                           |
| Danaharta bonds  | 9,709,000          | 9,821,000                             | 5,326,640          | 6,991,920                            |
| Corporate bonds****  | 40,196,830         | 49,917,500                            | 27,184,030         | 27,923,300                           |
|  | 49,905,830         |                                       | 41,675,370         |                                      |
| Accretion of discounts   | 346,741            |                                       | 3,014,216          |                                      |
|  | <u>50,252,571</u>  |                                       | <u>44,689,586</u>  |                                      |
| Fixed and call deposits with<br>licensed financial institutions: |                    |                                       |                    |                                      |
| Licensed banks*****  | 92,423,574         |                                       | 67,534,922         |                                      |
| Finance companies  | 7,385,644          |                                       | 7,292,142          |                                      |
| Other financial<br>institutions                                  | 30,432,806         |                                       | 31,173,396         |                                      |
|  | <u>130,242,024</u> |                                       | <u>106,000,460</u> |                                      |
| Total investments  | <u>213,971,152</u> |                                       | <u>210,782,677</u> |                                      |

\* indicative values, where applicable, obtained from the secondary market

\*\* includes an amount of RM567,364 (2002: RM6,176,254) managed by PacificMas Asset Management Sdn. Bhd., a fellow subsidiary

\*\*\* includes an amount of RM10,163,321 (2002: RM8,964,355) managed by Pacific Mutual Fund Bhd., a fellow subsidiary

\*\*\*\* all unquoted corporate bonds carry a minimum rating of "BBB" (long-term) or "P3" (short-term)

\*\*\*\*\* included an amount of RM18,294,122 (2002: RM507,695) placed with OCBC Bank (Malaysia) Berhad, a subsidiary of a substantial shareholder of the holding company



The maturity structure of investments, at cost (excluding equity investments, warrants, unit trusts and investment properties) is as follows:

|                          |                      | <b>More than 1</b>     |                     | <b>More than</b>  |                    |
|--------------------------|----------------------|------------------------|---------------------|-------------------|--------------------|
|                          | <b>Within 1 year</b> | <b>to &lt; 3 years</b> | <b>3 to 5 years</b> | <b>5 years</b>    | <b>Total</b>       |
|                          | <b>RM</b>            | <b>RM</b>              | <b>RM</b>           | <b>RM</b>         | <b>RM</b>          |
| <b>2003</b>              |                      |                        |                     |                   |                    |
| Malaysian Government     |                      |                        |                     |                   |                    |
| Securities               | 8,861,900            | 1,230,000              | 3,168,860           | -                 | 13,260,760         |
| Malaysian Government     |                      |                        |                     |                   |                    |
| Investment Issues        | -                    | 4,656,000              | -                   | -                 | 4,656,000          |
| Unquoted Danaharta bonds | 9,709,000            | -                      | -                   | -                 | 9,709,000          |
| Unquoted corporate bonds | 10,515,500           | 17,137,830             | 4,878,000           | 7,665,500         | 40,196,830         |
| Fixed and call deposits  | 130,242,024          | -                      | -                   | -                 | 130,242,024        |
| <b>2002</b>              | <b>159,328,424</b>   | <b>23,023,830</b>      | <b>8,046,860</b>    | <b>7,665,500</b>  | <b>198,064,614</b> |
| Malaysian Government     |                      |                        |                     |                   |                    |
| Securities               | 23,750,680           | 3,649,500              | 3,141,500           | 1,342,700         | 31,884,380         |
| Unquoted Danamodal bonds | 9,164,700            | -                      | -                   | -                 | 9,164,700          |
| Unquoted Danaharta bonds | 5,326,640            | -                      | -                   | -                 | 5,326,640          |
| Unquoted corporate bonds | -                    | 7,803,130              | 5,219,400           | 14,161,500        | 27,184,030         |
| Fixed and call deposits  | 106,000,460          | -                      | -                   | -                 | 106,000,460        |
|                          | <b>144,242,480</b>   | <b>11,452,630</b>      | <b>8,360,900</b>    | <b>15,504,200</b> | <b>179,560,210</b> |

The weighted average rate of return and the average remaining maturity of deposits as at the Balance Sheet date were as follows:

|                              | <b>Weighted average rate<br/>of return</b> |             | <b>Average remaining<br/>maturity</b> |             |
|------------------------------|--|-------------|---------------------------------------|-------------|
|                              | <b>2003</b>                                | <b>2002</b> | <b>2003</b>                           | <b>2002</b> |
|                              | <b>(% per annum)</b>                       |             | <b>(Days)</b>                         |             |
| Licensed banks               | 3.49                                       | 3.24        | 174                                   | 146         |
| Finance companies            | 3.87                                       | 3.42        | 188                                   | 155         |
| Other financial institutions | 3.00                                       | 3.00        | 87                                    | 52          |

Other financial institutions are discount houses, savings institutions and a building society.

**6. LOANS**

|                            | <b>2003</b>      | <b>2002</b>      |
|----------------------------|------------------|------------------|
|                            | <b>RM</b>        | <b>RM</b>        |
| Staff loans:               |                  |                  |
| Secured                    | 2,778,177        | 2,874,013        |
| Unsecured                  | 937,210          | 651,147          |
|                            | <u>3,715,387</u> | <u>3,525,160</u> |
| Receivable after 12 months | <u>3,293,701</u> | <u>3,152,145</u> |

The weighted average effective interest rate for staff loans as at 31 December 2003 was 3.31% (2002: 3.51%) on the basis of monthly rest.

**7. RECEIVABLES**

|  | <b>2003</b>        | <b>2002</b>        |
|--|--------------------|--------------------|
|  | <b>RM</b>          | <b>RM</b>          |
| Trade receivables:   |                    |                    |
| Due premiums including agents/brokers and co-insurers<br>balances* | 14,427,679         | 12,067,261         |
| Allowance for doubtful debts                                       | <u>(3,653,110)</u> | <u>(4,558,099)</u> |
|  | <u>10,774,569</u>  | <u>7,509,162</u>   |
| Amount due from reinsurers/ceding companies                        | 3,522,714          | 5,801,024          |
| Allowance for doubtful debts                                       | <u>(1,890,406)</u> | <u>(3,823,000)</u> |
|  | <u>1,632,308</u>   | <u>1,978,024</u>   |
| Total trade receivables  | <u>12,406,877</u>  | <u>9,487,186</u>   |
| Other receivables:   |                    |                    |
| Other receivables, deposits and prepayments**                      | 8,092,580          | 9,642,005          |
| Income due and accrued   | <u>2,395,288</u>   | <u>1,724,668</u>   |
| Total other receivables  | <u>10,487,868</u>  | <u>11,366,673</u>  |
| Total receivables  | <u>22,894,745</u>  | <u>20,853,859</u>  |

\* Included above are due premiums receivable from:

|  |         |         |
|--|---------|---------|
| A fellow subsidiary                            |         |         |
| - Pac Lease Sdn. Bhd.                          | 98,683  | 50,040  |
| Associated company of the holding company      |         |         |
| - Malaysian Trustees Berhad                    | 2,092   | 34,462  |
| Substantial shareholder of the holding company |         |         |
| - United Malacca Berhad                        | 120,209 | 128,041 |

|  | <b>2003</b> | <b>2002</b> |
|--|-------------|-------------|
|  | <b>RM</b>   | <b>RM</b>   |

\*\* Included above is an amount receivable from:

|                          |         |         |
|--------------------------|---------|---------|
| A fellow subsidiary      |         |         |
| - P.B. Pacific Sdn. Bhd. | 421,943 | 421,943 |

As at 31 December 2003, the Company has unreconciled balances as follows:

|            | <b>2003</b> | <b>2002</b> |
|------------|-------------|-------------|
|            | <b>RM</b>   | <b>RM</b>   |
| Brokers    | 35,594      | 35,594      |
| Reinsurers | 454,900     | 493,568     |

The Company is in contact with the parties concerned to facilitate the reconciliation exercise.

## 8. PROVISION FOR OUTSTANDING CLAIMS

|                                  | <b>2003</b>         | <b>2002</b>         |
|----------------------------------|---------------------|---------------------|
|                                  | <b>RM</b>           | <b>RM</b>           |
| Provision for outstanding claims | 98,739,486          | 111,162,778         |
| Recoverable from reinsurers      | <u>(32,558,483)</u> | <u>(42,280,799)</u> |
| Net outstanding claims           | <u>66,181,003</u>   | <u>68,881,979</u>   |

## 9. PAYABLES

|  | <b>2003</b>       | <b>2002</b>       |
|--|-------------------|-------------------|
|  | <b>RM</b>         | <b>RM</b>         |
| Trade payables:                                  |                   |                   |
| Amount due to reinsurers/ceding companies        | 7,817,869         | 8,877,852         |
| Amount due to brokers, co-insurers and insureds* | <u>5,165,260</u>  | <u>7,019,024</u>  |
|  | <u>12,983,129</u> | <u>15,896,876</u> |
| Other payables:                                  |                   |                   |
| Other payables and accrued liabilities**         | <u>5,338,640</u>  | <u>5,571,304</u>  |
| Total payables                                   | <u>18,321,769</u> | <u>21,468,180</u> |

|   | <b>2003</b> | <b>2002</b> |
|---|-------------|-------------|
|   | <b>RM</b>   | <b>RM</b>   |
| * Included above is an amount payable to:   |             |             |
| A fellow subsidiary                         |             |             |
| - Pac Lease Sdn. Bhd.                       | 21,848      | 26,358      |
| ** Included above is the amount payable to: |             |             |
| A fellow subsidiary                         |             |             |
| - Pac Lease Sdn. Bhd.                       | 86,784      | 139,436     |

As at 31 December 2003, the Company has unreconciled balances as follows:

|             | <b>2003</b> | <b>2002</b> |
|-------------|-------------|-------------|
|             | <b>RM</b>   | <b>RM</b>   |
| Brokers     | 28,816      | 28,816      |
| Co-insurers | 102,584     | 114,880     |

The Company is in contact with the parties concerned in order to facilitate the reconciliation exercise.

#### **10. STAFF RETIREMENT GRATUITIES**

|                               | <b>2003</b>    | <b>2002</b>      |
|-------------------------------|----------------|------------------|
|                               | <b>RM</b>      | <b>RM</b>        |
| At 1 January                  | 658,249        | 614,367          |
| Acquisition of business       | -              | 375,735          |
| Provision for the year        | 125,403        | 122,082          |
|                               | <u>783,652</u> | <u>1,112,184</u> |
| Benefits paid during the year | (20,218)       | (453,935)        |
| At 31 December                | <u>763,434</u> | <u>658,249</u>   |

**11. UNEARNED PREMIUM RESERVES**

|                            | Fire<br>RM | Motor<br>RM | Marine,<br>Aviation<br>and<br>Transit<br>RM | Medical &<br>Health<br>RM | Misc.<br>Others<br>RM | Total Misc.<br>RM | Total<br>RM |
|----------------------------|------------|-------------|---|---------------------------|-----------------------|-------------------|-------------|
| <b>2003</b>                |            |             |   |                           |                       |                   |             |
| At 1 January               | 3,906,172  | 8,556,244   | 121,802                                     | 5,584,157                 | 4,197,098             | 9,781,255         | 22,365,473  |
| (Decrease)/<br>increase    | (272,873)  | 513,484     | (55,128)                                    | 6,546,127                 | 1,458,391             | 8,004,518         | 8,190,001   |
| At 31<br>December          | 3,633,299  | 9,069,728   | 66,674                                      | 12,130,284                | 5,655,489             | 17,785,773        | 30,555,474  |
| <b>2002</b>                |            |             |   |                           |                       |                   |             |
| At 1 January               | 2,481,608  | 6,896,218   | 216,745                                     | 4,139,360                 | 2,574,055             | 6,713,415         | 16,307,986  |
| Acquisition of<br>business | 830,749    | 4,177,184   | 161,365                                     | 84,539                    | 923,827               | 1,008,366         | 6,177,664   |
| Increase/<br>(decrease)    | 593,815    | (2,517,158) | (256,308)                                   | 1,360,258                 | 699,216               | 2,059,474         | (120,177)   |
| At 31<br>December          | 3,906,172  | 8,556,244   | 121,802                                     | 5,584,157                 | 4,197,098             | 9,781,255         | 22,365,473  |

**12. SHARE CAPITAL****Number of ordinary shares  
of RM1 each**

| 2003<br>'000 | 2002<br>'000 | Amount<br>2003<br>RM '000 | 2002<br>RM '000 |
|--------------|--------------|---------------------------|-----------------|
|--------------|--------------|---------------------------|-----------------|

**Authorised:**

|                          |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| At 1 January/31 December | 500,000 | 500,000 | 500,000 | 500,000 |
|--------------------------|---------|---------|---------|---------|

**Issued and paid up:**

|                          |         |         |         |         |
|--------------------------|---------|---------|---------|---------|
| At 1 January/31 December | 100,000 | 100,000 | 100,000 | 100,000 |
|--------------------------|---------|---------|---------|---------|

**13. DIVIDENDS**

| Amount<br>2003<br>RM | 2002<br>RM | Net dividend per share<br>2003<br>Sen | 2002<br>Sen |
|----------------------|------------|---------------------------------------|-------------|
|----------------------|------------|---------------------------------------|-------------|

|   |            |           |      |     |
|---|------------|-----------|------|-----|
| Interim dividends of 10%, tax<br>exempt (2002: 5% less 28%<br>taxation) | 10,000,000 | 3,600,000 | 10.0 | 3.6 |
|---|------------|-----------|------|-----|

The directors do not propose any final dividend for the financial year ended 31 December 2003.

**14. OPERATING REVENUE**

|                              | <b>Shareholder's<br/>fund<br/>RM</b> | <b>General<br/>business<br/>RM</b> | <b>Total<br/>RM</b> |
|------------------------------|--------------------------------------|------------------------------------|---------------------|
| <b>2003</b>                  |                                      |                                    |                     |
| Gross premiums               | -                                    | 90,303,381                         | 90,303,381          |
| Investment income (Note 14a) | 1,296,694                            | 7,908,817                          | 9,205,511           |
|                              | <u>1,296,694</u>                     | <u>98,212,198</u>                  | <u>99,508,892</u>   |
| <b>2002</b>                  |                                      |                                    |                     |
| Gross premiums               | -                                    | 71,108,717                         | 71,108,717          |
| Investment income (Note 14a) | 1,393,375                            | 7,577,211                          | 8,970,586           |
|                              | <u>1,393,375</u>                     | <u>78,685,928</u>                  | <u>80,079,303</u>   |

**14a. Investment Income**

|   | <b>Shareholder's fund</b> |                  | <b>General business</b> |                  |
|---|---------------------------|------------------|-------------------------|------------------|
|   | <b>2003</b>               | <b>2002</b>      | <b>2003</b>             | <b>2002</b>      |
|   | <b>RM</b>                 | <b>RM</b>        | <b>RM</b>               | <b>RM</b>        |
| Interest income from:                                     |                           |                  |                         |                  |
| Malaysian Government                                      |                           |                  |                         |                  |
| Securities  | -                         | -                | 1,526,703               | 2,800,688        |
| Corporate bonds   | -                         | -                | 1,907,154               | 1,497,364        |
| Fixed and call deposits                                   | 1,272,694                 | 1,381,375        | 2,665,424               | 2,079,064        |
| Gross dividends from:                                     |                           |                  |                         |                  |
| Shares quoted in Malaysia                                 | -                         | -                | 540,547                 | 508,389          |
| Unit trusts   | -                         | -                | 621,214                 | 65,737           |
| Rental of properties                                      | 24,000                    | 12,000           | 38,900                  | 32,250           |
| Accretion of discount, net of<br>amortisation of premiums | -                         | -                | 608,875                 | 593,719          |
|   | <u>1,296,694</u>          | <u>1,393,375</u> | <u>7,908,817</u>        | <u>7,577,211</u> |

**15. OTHER OPERATING INCOME/(EXPENSES)**

|  | Shareholder's fund |                | General business |                  |
|--|--------------------|----------------|------------------|------------------|
|  | 2003               | 2002           | 2003             | 2002             |
|  | RM                 | RM             | RM               | RM               |
| Other income:  |                    |                |                  |                  |
| Gain on disposal of investments                                | -                  | -              | 3,419,021        | 3,572,089        |
| Gain on disposal of property and equipment                     | -                  | -              | -                | 70,238           |
| Gain on disposal of an investment property                     | -                  | -              | 5,000            | -                |
| Realised gain on foreign exchange                              | -                  | -              | 998              | -                |
| Write back of provision for diminution in value of investments | -                  | -              | 1,428,219        | 3,439,695        |
| Interest income from staff loans                               | 148,620            | 168,353        | -                | -                |
| Sundry income  | -                  | -              | 464,896          | 265,202          |
|  | <u>148,620</u>     | <u>168,353</u> | <u>5,318,134</u> | <u>7,347,224</u> |
| Other expenses:  |                    |                |                  |                  |
| Loss on disposal of property and equipment                     | -                  | -              | (6,519)          | -                |
| Write off of property and equipment                            | -                  | -              | (13,154)         | (305,032)        |
| Realised loss on foreign exchange                              | -                  | -              | -                | (412)            |
| Interest expenses  | -                  | -              | (861)            | (339)            |
| Sundry expenses  | -                  | -              | (1,055)          | (17,453)         |
| Net income   | <u>148,620</u>     | <u>168,353</u> | <u>5,296,545</u> | <u>7,023,988</u> |

**16. MANAGEMENT EXPENSES**

|   | Shareholder's fund |          | General business  |                   |
|---|--------------------|----------|-------------------|-------------------|
|   | 2003               | 2002     | 2003              | 2002              |
|   | RM                 | RM       | RM                | RM                |
| Staff costs:  |                    |          |                   |                   |
| Directors' remuneration (Note 17)                   | -                  | -        | 269,662           | 710,701           |
| EPF (excluding directors')                          | -                  | -        | 1,142,969         | 1,030,682         |
| Provision for staff retirement gratuities           | -                  | -        | 125,403           | 122,082           |
| Short-term accumulating compensated balances        | -                  | -        | 93,897            | -                 |
| Salaries, bonus, allowances and other related costs | -                  | -        | 9,277,923         | 8,612,839         |
|   | <u>-</u>           | <u>-</u> | <u>10,909,854</u> | <u>10,476,304</u> |

|   | Shareholder's fund |                 | General business  |                   |
|---|--------------------|-----------------|-------------------|-------------------|
|   | 2003<br>RM         | 2002<br>RM      | 2003<br>RM        | 2002<br>RM        |
| Directors' fees (Note 17)                 | -                  | -               | -                 | -                 |
| Auditors' remuneration                    | -                  | -               | 60,000            | 60,000            |
| Bad debts recovered net of<br>write off   | -                  | -               | (3,048,078)       | (1,079,537)       |
| Office rental                             | -                  | -               | 1,336,650         | 1,602,808         |
| Office equipment rental                   | -                  | -               | 85,117            | 98,716            |
| Depreciation of property<br>and equipment | -                  | 1,750           | 1,234,838         | 1,138,041         |
| Other expenses                            | 78,984             | (69,058)        | 5,335,310         | 3,576,478         |
|   | <u>78,984</u>      | <u>(67,308)</u> | <u>15,913,691</u> | <u>15,872,810</u> |

## 17. DIRECTORS' REMUNERATION

|  | 2003<br>RM     | 2002<br>RM     |
|--|----------------|----------------|
| Chief Executive Officers:                                  |                |                |
| Salary and other emoluments                                | 232,467        | 612,669        |
| Directors' fees  | 15,000         | 39,070         |
| EPF  | 37,195         | 98,032         |
| Benefits-in-kind   | 6,244          | 3,799          |
|  | <u>290,906</u> | <u>753,570</u> |
| Non-executive directors:                                   |                |                |
| Directors' fees  | <u>110,890</u> | <u>120,570</u> |
| Total  | <u>401,796</u> | <u>874,140</u> |
| Total included as staff costs (excluding benefits-in-kind) | <u>269,662</u> | <u>710,701</u> |
| Total directors' fees                                      | <u>125,890</u> | <u>159,640</u> |

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

|                          | Number of directors |            |
|--------------------------|---------------------|------------|
|                          | 2003<br>RM          | 2002<br>RM |
| Executive directors:     |                     |            |
| RM50,001 to RM100,000    | -                   | 1          |
| RM250,001 to RM300,000   | 1                   | -          |
| RM600,001 to RM650,000   | -                   | 1*         |
| Non-executive directors: |                     |            |
| Below RM50,000           | 5                   | 5          |

\* resigned during the year



**18. FINANCE COSTS**

Finance costs relate to finance lease interest.

**19. TAXATION**

|   | <b>2003</b>      | <b>2002</b>      |
|---|------------------|------------------|
|   | <b>RM</b>        | <b>RM</b>        |
| Income tax  | 3,875,657        | 2,794,000        |
| Deferred tax relating to origination and reversal of temporary differences (Note 4) | 432,016          | (191,194)        |
| Tax expense for the year  | <u>4,307,673</u> | <u>2,602,806</u> |

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2002: 28%) of the estimated assessable profit for the year.

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

|  | <b>2003</b>       | <b>2002</b>       |
|--|-------------------|-------------------|
|  | <b>RM</b>         | <b>RM</b>         |
| Profit before taxation   | <u>16,539,882</u> | <u>10,558,883</u> |
| Taxation at Malaysian statutory income tax rate of 28% (2002: 28%) | 4,631,167         | 2,956,487         |
| Expenses not deductible for tax purposes                           | 112,308           | 201,904           |
| Income not subject to tax  | (423,574)         | (555,585)         |
| Underprovided in a prior year                                      | 45,269            | -                 |
| Tax expense for the year   | <u>4,365,170</u>  | <u>2,602,806</u>  |

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and exempt income to frank the payment of dividends out of its entire retained profits as at 31 December 2003.

As at 31 December 2003, the Company has tax exempt profits available for distribution of approximately RM1,177,000 (2002: RM11,134,000), subject to agreement of the Inland Revenue Board.

**20. NET CLAIMS INCURRED**

|                |             |              |             | Marine,<br>Aviation<br>and<br>Transit<br>RM | Medical &<br>Health<br>RM | Misc.<br>Others<br>RM | Total Misc.<br>RM | Total<br>RM |
|----------------|-------------|--------------|-------------|---|---------------------------|-----------------------|-------------------|-------------|
| <b>2003</b>    |             |              |             |   |                           |                       |                   |             |
| Gross claims   |             |              |             |   |                           |                       |                   |             |
| paid less      |             |              |             |   |                           |                       |                   |             |
| salvage        | 7,110,251   | 20,985,420   | 1,947,350   | 12,878,274                                  | 8,489,109                 | 21,367,383            | 51,410,404        |             |
| Reinsurance    |             |              |             |   |                           |                       |                   |             |
| recoveries     | (3,999,416) | (3,298,709)  | (1,721,556) | (3,212,991)                                 | (3,451,478)               | (6,664,469)           | (15,684,150)      |             |
| Net claims     |             |              |             |   |                           |                       |                   |             |
| paid           | 3,110,835   | 17,686,711   | 225,794     | 9,665,283                                   | 5,037,631                 | 14,702,914            | 35,726,254        |             |
| Net            |             |              |             |   |                           |                       |                   |             |
| outstanding    |             |              |             |   |                           |                       |                   |             |
| claims:        |             |              |             |   |                           |                       |                   |             |
| At 31          |             |              |             |   |                           |                       |                   |             |
| December       | 3,680,511   | 43,713,245   | 1,727,583   | 3,963,771                                   | 13,095,893                | 17,059,664            | 66,181,003        |             |
| At 1           |             |              |             |   |                           |                       |                   |             |
| January        | (5,737,096) | (45,662,526) | (1,844,737) | (2,655,649)                                 | (12,981,971)              | (15,637,620)          | (68,881,979)      |             |
| Net claims     |             |              |             |   |                           |                       |                   |             |
| incurred       | 1,054,250   | 15,737,430   | 108,640     | 10,973,405                                  | 5,151,553                 | 16,124,958            | 33,025,278        |             |
| <b>2002</b>    |             |              |             |   |                           |                       |                   |             |
| Gross claims   |             |              |             |   |                           |                       |                   |             |
| paid less      |             |              |             |   |                           |                       |                   |             |
| salvage        | 14,230,971  | 15,809,412   | 2,586,705   | 10,618,882                                  | 14,210,703                | 24,829,585            | 57,456,673        |             |
| Reinsurance    |             |              |             |   |                           |                       |                   |             |
| recoveries     | (9,114,397) | (1,557,007)  | (1,854,841) | (2,605,936)                                 | (8,896,969)               | (11,502,905)          | (24,029,150)      |             |
| Net claims     |             |              |             |   |                           |                       |                   |             |
| paid           | 5,116,574   | 14,252,405   | 731,864     | 8,012,946                                   | 5,313,734                 | 13,326,680            | 33,427,523        |             |
| Net            |             |              |             |   |                           |                       |                   |             |
| outstanding    |             |              |             |   |                           |                       |                   |             |
| claims:        |             |              |             |   |                           |                       |                   |             |
| At 31          |             |              |             |   |                           |                       |                   |             |
| December       | 5,737,096   | 45,662,526   | 1,844,737   | 2,655,649                                   | 12,981,971                | 15,637,620            | 68,881,979        |             |
| Acquisition of |             |              |             |   |                           |                       |                   |             |
| business       | (1,677,570) | (17,963,571) | (1,113,816) | (102,953)                                   | (7,892,249)               | (7,995,202)           | (28,750,159)      |             |
| At 1           |             |              |             |   |                           |                       |                   |             |
| January        | (4,513,751) | (26,697,169) | (1,064,933) | (2,602,589)                                 | (5,275,885)               | (7,878,474)           | (40,154,327)      |             |
| Net claims     |             |              |             |   |                           |                       |                   |             |
| incurred       | 4,662,349   | 15,254,191   | 397,852     | 7,963,053                                   | 5,127,571                 | 13,090,624            | 33,405,016        |             |

## **21. EARNINGS PER SHARE**

The calculation of basic earnings per ordinary share of RM1.00 each is based on the profit after taxation for the year of RM12,232,209 (2002: RM7,956,077) over the number of shares in issue during the year of 100,000,000 (2002: 100,000,000). There is no dilution in earnings per share as there were no dilutive potential ordinary shares as at 31 December 2003.

The comparative earnings per share has been restated to take into account the effect of the change in accounting policy (Note 2(a) and Note 22) on the net profit for the year.

## **22. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS**

### **(a) Changes in Accounting Policies**

During the financial year, the Company applied two new MASB Standards which became effective from 1 January 2003, and accordingly modified certain accounting policies. The changes in accounting policies which resulted in prior year adjustments are discussed below:

#### **(i) MASB 25: Income taxes**

Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were provided for on account of timing difference only to the extent that a tax liability was expected to materialise in the foreseeable future. In addition, the Company has commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient tax profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was reasonable expectation of their realisation.

The change in this accounting policy has been applied retrospectively and comparatives have been restated.

#### **(ii) MASB 29: Employee Benefits**

The adoption of MASB 29 resulted in the Company making provisions for obligations in respect of short-term employee benefits in the form of accumulated compensated absences. These obligations were not provided for prior to the adoption of MASB 29.

The change in this accounting policy has not given rise to any adjustments to the opening balances of retained profits of the prior and current years or to changes in comparatives.

**(b) Prior Year Adjustments**

The effects of prior year adjustments described above are as follows:

|   | <b>2003</b>       | <b>2002</b>       |
|---|-------------------|-------------------|
|   | <b>RM</b>         | <b>RM</b>         |
| <b>Effects on Retained Profits:</b>           |                   |                   |
| At 1 January, as previously stated            | 25,077,955        | 20,913,072        |
| Effects of adopting MASB 25                   |                   |                   |
| - prior to 2002                               | 765,976           | 765,976           |
| - 2002  | 191,194           | -                 |
|   | 957,170           | 765,976           |
| At 1 January, as restated                     | <u>26,035,125</u> | <u>21,679,048</u> |
| <b>Effects on Net Profit for the year:</b>    |                   |                   |
| Net profit before change in accounting policy | 12,664,225        | 7,764,883         |
| Effects of adopting MASB 25                   | (432,016)         | 191,194           |
| Net profit for the year                       | <u>12,232,209</u> | <u>7,956,077</u>  |

Comparative amounts as at 31 December 2002 have been restated as follows:

|                     | <b>Previously<br/>stated<br/>RM</b> | <b>Adjustments<br/>RM</b> | <b>Restated<br/>RM</b> |
|---------------------|-------------------------------------|---------------------------|------------------------|
| Deferred tax assets | -                                   | 957,170                   | <u>957,170</u>         |

**23. SEGMENT INFORMATION ON CASH FLOW**

|  | <b>Shareholder's<br/>fund<br/>RM</b> | <b>General<br/>business<br/>RM</b> | <b>Total<br/>RM</b> |
|--|--------------------------------------|------------------------------------|---------------------|
| <b>2003</b>                                |                                      |                                    |                     |
| Cash flows from:                           |                                      |                                    |                     |
| Operating activities                       | 10,096,018                           | 1,254,224                          | 11,350,242          |
| Investing activities                       | -                                    | (483,313)                          | (483,313)           |
| Financing activities                       | (10,000,000)                         | (8,500)                            | (10,008,500)        |
|  | <u>96,018</u>                        | <u>762,411</u>                     | <u>858,429</u>      |
| Net increase in cash and cash equivalents: |                                      |                                    |                     |
| At beginning of financial year             | (44,432)                             | (920,962)                          | (965,394)           |
| At end of financial year                   | 140,450                              | 1,683,373                          | 1,823,823           |
|  | <u>96,018</u>                        | <u>762,411</u>                     | <u>858,429</u>      |

|   | <b>Shareholder's<br/>fund<br/>RM</b> | <b>General<br/>business<br/>RM</b> | <b>Total<br/>RM</b> |
|---|--------------------------------------|------------------------------------|---------------------|
| <b>2002</b>                                   |                                      |                                    |                     |
| Cash flows from:                              |                                      |                                    |                     |
| Operating activities                          | 3,489,200                            | 58,371,679                         | 61,860,879          |
| Investing activities                          | (51,876)                             | (59,923,594)                       | (59,975,470)        |
| Financing activities                          | (3,600,000)                          | (5,812)                            | (3,605,812)         |
|   | <u>(162,676)</u>                     | <u>(1,557,727)</u>                 | <u>(1,720,403)</u>  |
| Net decrease in cash and<br>cash equivalents: |                                      |                                    |                     |
| At beginning of financial year                | (207,108)                            | (2,478,689)                        | (2,685,797)         |
| At end of financial year                      | 44,432                               | 920,962                            | 965,394             |
|   | <u>(162,676)</u>                     | <u>(1,557,727)</u>                 | <u>(1,720,403)</u>  |

#### 24. CAPITAL COMMITMENTS

|                                 | <b>2003<br/>RM</b> | <b>2002<br/>RM</b> |
|---------------------------------|--------------------|--------------------|
| Approved and contracted for     | 140,727            | 153,790            |
| Approved but not contracted for | 3,253              | -                  |
|                                 | <u>143,980</u>     | <u>153,790</u>     |

#### 25. SIGNIFICANT RELATED PARTY TRANSACTIONS

|  | <b>2003<br/>RM</b> | <b>2002<br/>RM</b> |
|--|--------------------|--------------------|
| Insurance premium from:  |                    |                    |
| Holding company  | 40,725             | 29,649             |
| Fellow subsidiaries:   |                    |                    |
| - Pacific Mutual Fund Bhd.   | 114,696            | 73,938             |
| - Pac Lease Sdn. Bhd.  | 29,034             | 22,918             |
| Associated company of the holding company  |                    |                    |
| - Malaysian Trustees Berhad  | 40,797             | 64,280             |
| Substantial shareholder of the holding company   |                    |                    |
| - United Malacca Berhad  | 59,074             | 55,359             |
| Interest income from fixed and call deposits placed with<br>OCBC Bank (Malaysia) Berhad, a subsidiary of<br>a substantial shareholder of the holding company | 187,901            | 55,443             |
| Dividend income from investment in unit trust funds managed<br>by Pacific Mutual Fund Bhd., a fellow subsidiary  | 613,072            | 65,737             |

|   | <b>2003</b> | <b>2002</b> |
|---|-------------|-------------|
|   | <b>RM</b>   | <b>RM</b>   |
| Insurance commissions including agency commissions paid and payable to: |             |             |
| Fellow subsidiary   |             |             |
| - Pac Lease Sdn. Bhd.   | (173,938)   | (124,457)   |
| Substantial shareholder of the holding company                          |             |             |
| - United Malacca Berhad   | (56,928)    | (41,727)    |
| Subsidiary of a substantial shareholder of the holding company          |             |             |
| - OCBC Bank (Malaysia) Berhad   | (26,822)    | -           |
| Claims payment to:  |             |             |
| Holding company   | (39,214)    | (8,866)     |
| Fellow subsidiary:  |             |             |
| - P.B. Pacific Sdn. Bhd.  | (18,900)    | (18,400)    |
| - Pacific Mutual Fund Bhd.  | (13,368)    | -           |
| Substantial shareholder of the holding company                          |             |             |
| - United Malacca Berhad   | (27,533)    | (19,753)    |
| Management fees paid to holding company                                 | (1,693,284) | (388,759)   |
| Expenses paid to fellow subsidiaries:                                   |             |             |
| Premises rental   |             |             |
| - P.B. Pacific Sdn. Bhd.  | (1,127,550) | (1,129,680) |
| Investment management fees  |             |             |
| - PacificMas Asset Management Sdn. Bhd.                                 | (85,793)    | (10,463)    |

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

## **26. FINANCIAL INSTRUMENTS**

### **(a) Financial Risk Management Objectives and Policies**

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the Company's business activity whilst managing the Company's interest rate, liquidity, market and credit risks. The Company operates within clearly defined guidelines that are approved by the Board and the Company's policy is not to engage in speculative transactions.

**(b) Interest Rate Risk**

The Company's primary interest rate risk relates to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities, Malaysian Government Guaranteed bonds and bonds issued by corporations in Malaysia. The interest rate risk arises from the interest rate movements affecting the reinvestment of these interest-bearing assets.

The Company manages the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

**(c) Liquidity Risk**

The Company actively manages the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

**(d) Market Risk**

The Company's investments in equities and unit trusts are subject to fluctuations in market prices. The Company's investments in equities and unit trusts are managed by licensed asset management companies and licensed unit trust management companies respectively.

The Company has given clear investment guidelines to the asset management companies under the fund management agreement in order to manage the market risk. The unit trust management companies are governed by the unit trust guidelines and regulations stipulated by the Securities Commission.

**(e) Credit Risk**

Credit risk arises when the Company's cash assets are placed in interest-bearing instruments, mainly fixed deposits and repurchase agreements with licensed financial institutions. The Company manages this credit risk by spreading its deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Company adopts various internal control measures to minimise this credit risk.

**(f) Fair Values**

The aggregate net fair values of financial assets on the balance sheet of the Company are represented as follows:

|  | Note | Carrying<br>amount<br>RM | Fair<br>value<br>RM |
|--|------|--------------------------|---------------------|
| <b>At 31 December 2003:</b>                            |      |                          |                     |
| Investments  | 5    |                          |                     |
| Malaysian Government<br>Securities                     |      | 12,825,068               | 13,141,780          |
| Malaysian Government<br>Investment Issues              |      | 4,717,529                | 4,690,000           |
| Quoted shares, warrants and convertible<br>loan stocks |      | 3,467,143                | 3,467,143           |
| Quoted unit trusts                                     |      | 11,507,367               | 12,067,657          |
| Danaharta bonds  |      | 9,819,036                | 9,821,000           |
| Unquoted corporate bonds                               |      | 40,433,535               | 49,917,500          |
|  |      | <u>82,769,678</u>        | <u>93,105,080</u>   |
| <b>At 31 December 2002:</b>                            |      |                          |                     |
| Investments  | 5    |                          |                     |
| Malaysian Government<br>Securities                     |      | 30,654,905               | 31,741,064          |
| Quoted shares, warrants and convertible<br>loan stocks |      | 18,942,712               | 18,942,712          |
| Quoted unit trusts                                     |      | 9,435,564                | 9,435,564           |
| Danamodal bonds  |      | 10,568,139               | 10,751,400          |
| Danaharta bonds  |      | 6,758,490                | 6,991,920           |
| Unquoted corporate bonds                               |      | 27,362,957               | 27,923,300          |
|  |      | <u>103,722,767</u>       | <u>105,785,960</u>  |

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

**(i) Cash and Cash Equivalents and Other Receivables/Payables**

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

**(ii) Investments**

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

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



The fair values of Malaysian Government Securities, Malaysian Government Investment Issues, Danamodal, Danaharta and unquoted corporate bonds are indicative values obtained from the secondary market.

## 27. SIGNIFICANT EVENTS

On 21 February 2003, the holding company, PacificMas Berhad, announced that it had received Bank Negara Malaysia's approval for it to begin negotiations :

- (i) with Koperasi Angkatan Tentera Malaysia Berhad ("KATM") for the merger of the insurance business of The Pacific Insurance Berhad ("PIB") with that of Malaysia & Nippon Insurans Berhad ("MNIB"), a wholly-owned subsidiary of KATM; and
- (ii) with GEL Capital (Malaysia) Berhad for the restructuring of the equity and insurance business operations of Great Eastern Life Assurance (Malaysia) Berhad ("GELM") and Overseas Assurance Corporation (Malaysia) Berhad ("OACM"), both wholly-owned subsidiaries of Great Eastern Holdings Limited ("GEH"), with GEH subsequently holding 51% interest in PacificMas. The general insurance business under OACM, PIB and MNIB will be merged and integrated.

Negotiations with the various parties are still ongoing.

## 28. COMPARATIVES

The presentation and classification of items in the current year financial statements have been consistent with the previous financial year except that certain comparative amounts have been adjusted mainly as a result of changes in accounting policies as disclosed in Note 2(a) and Note 22.

The following Balance Sheet comparative figures have been reclassified to conform with the current year's presentation:

|   | Note | Previously<br>stated<br>RM | Adjustments<br>RM | Restated<br>RM |
|---|------|----------------------------|-------------------|----------------|
| Tax payable                                 |      | 477,663                    | 548,321           | 1,025,984      |
| Other receivables, deposits and prepayments | 7    | 9,093,684                  | 548,321           | 9,642,005      |

The comparative figures have been audited by a firm of chartered accountants other than Ernst & Young.

## 29. CURRENCY

All amounts are stated in Ringgit Malaysia.