

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold all your shares in PARAMOUNT CORPORATION BERHAD, you should at once hand this Circular together with the enclosed Form of Proxy to the agent through whom the sale was effected for onward transmission to the purchaser.

The approval of the Securities Commission shall not be taken to indicate that the Securities Commission recommends the Proposed Merger and that investors should rely on their own evaluation to assess the merits and risks of the Proposed Merger.

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PARAMOUNT CORPORATION BERHAD

(Company No.: 8578-A)
(Incorporated in Malaysia)

**CIRCULAR TO SHAREHOLDERS
in relation to the**

**PROPOSED MERGER OF THE GENERAL INSURANCE BUSINESS OPERATIONS OF
PARAMOUNT ASSURANCE BERHAD ("PAB") AND JERNEH INSURANCE BERHAD
("JIB") THROUGH THE DISPOSAL BY PAB OF ITS GENERAL INSURANCE BUSINESS
OPERATIONS TO JIB**

Adviser



ASEAN BANKERS MALAYSIA BERHAD

(15938-11)

A Member Of The  Group

The Notice of an Extraordinary General Meeting to be held at Cempaka-Raya Room, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail 50250 Kuala Lumpur on Wednesday, 10 November 1999 at 10.00 a.m. together with the Form of Proxy are attached to this Circular. The Form of Proxy should be lodged at the Registered Office of the Company not later than 48 hours before the time of the Meeting.

This Circular is dated 25 October 1999

DEFINITIONS

Unless otherwise indicated, the following abbreviations shall apply throughout this Circular:-

“PCB” or the “Company”	: Paramount Corporation Berhad (8578-A)
“PCB Group” or the “Group”	: PCB and its subsidiary and associated companies
“PAB”	: Paramount Assurance Berhad (30046-A), a 96.47% owned subsidiary company of PCB
“Act”	: Insurance Act 1996
“Aseambankers”	: Aseambankers Malaysia Berhad (15938-H)
“BNM”	: Bank Negara Malaysia
“Completion Date”	: A day nominated by the Court as the effective date of transfer of PAB’s general insurance business operations to JIB
“Court”	: High Court of Malaya
“EGM”	: Extraordinary General Meeting
“Euro”	: The European Euro currency
“FIC”	: Foreign Investment Committee
“HK\$”	: Hong Kong Dollar
“JAB”	: Jerneh Asia Berhad (363984-X)
“JIB”	: Jerneh Insurance Berhad (9827-A), a wholly-owned subsidiary company of JAB
“KLSE”	: Kuala Lumpur Stock Exchange (30632-P)
“KMR”	: Kian Min Realty Sendirian Berhad (56433-U), an associated company of JIB
“Merged Entity”	: The enlarged JIB after the completion of the Proposed Merger, being the entity carrying out the merged general insurance business operations of JIB and PAB
“NMG”	: NMG Risk Managers & Actuaries Sdn Bhd (247893-T)
“NTA”	: Net tangible assets
“Peso”	: Philippines Peso

DEFINITIONS (Cont'd)

"Proposed Acquisition"	: Proposed acquisition by PAB of 4,575,000 shares or 6.10% of the enlarged issued and paid up share capital of 75,000,000 shares in JIB from JAB for a cash consideration of RM17,181,822 or RM3.76 per share in JIB.
"Proposed Bonus Issue"	: Proposed bonus issue of 14,575,000 new shares in JIB on the basis of 1 new share for approximately every 3.43 existing shares held, to be issued to JAB
"Proposed Interim Dividend"	: Proposed interim dividend to be paid by JIB to JAB in respect of the financial year ending 31 December 1999, the rate of which shall be determined at a later date based on the level of retained earnings of JIB as at the Completion Date and after the Proposed Bonus Issue
"Proposed Merger"	: Proposed merger of the general insurance business operations of PAB and JIB as set out in section 2.0 of the Letter to Shareholders included in this Circular
"Proposed Scheme of Transfer"	: Proposed acquisition and transfer of the general insurance business operations of PAB to JIB
"RM" and "Sen"	: Ringgit Malaysia and sen, respectively
"ROC"	: Registrar of Companies, Malaysia
"SC"	: Securities Commission
"share(s)"	: Ordinary share(s) of RM1.00 each
"S\$"	: Singapore Dollar
"Thamass"	: Thamass Sdn Bhd (117681-W)
"USD"	: United States Dollar

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FORM OF PROXY

ENCLOSED

PARAMOUNT CORPORATION BERHAD

(Company No. 8578-A)
(Incorporated in Malaysia)

REGISTERED OFFICE

Level 33, Menara Dion
27, Jalan Sultan Ismail
50250 Kuala Lumpur

25 October 1999

Directors

Tun Dato' Haji Omar Yoke Lin Ong, *SSM, PMN, SPMS, SPDK*
Hon, PH.D (Malaya), Hon. L.L.D. (Hanyang, Seoul) (Chairman)
Teo Chiang Quan (*Group Managing Director / Group Chief Executive Officer*)
Ong Keng Siew (*Deputy Group Managing Director / Deputy Group Chief Executive Officer*)
Tan Sri Dato' Ahmad Sabki bin Jahidin, *PSM, DPMP, DIMP, JMN, KMN, SAP, PMP, PJK*
Dato' Haji Azlan bin Hashim, *DSNS, DSSA*
Dato' Alexander Yu Lung Lee
Md Taib bin Abdul Hamid
Rohana Tan Sri Mahmood
Geh Cheng Hooi

To: The Shareholders of **PARAMOUNT CORPORATION BERHAD**

Dear Sir/Madam,

PARAMOUNT CORPORATION BERHAD

**PROPOSED MERGER OF THE GENERAL INSURANCE BUSINESS OPERATIONS OF
PARAMOUNT ASSURANCE BERHAD ("PAB") AND JERNEH INSURANCE BERHAD
("JIB") THROUGH THE DISPOSAL BY PAB OF ITS GENERAL INSURANCE BUSINESS
OPERATIONS TO JIB**

1. INTRODUCTION

On 16 October 1998, Aseambankers had, on behalf of the Board of Directors of PCB, announced the approval of BNM for PCB to commence negotiations with JAB on the proposed merger of their respective subsidiary companies, PAB and JIB, which are both involved in the general insurance business.

Subsequently, on 8 June 1999, Aseambankers, on behalf of the Board of Directors of PCB, announced that PAB proposed to undertake the Proposed Merger through the disposal of its general insurance business operations to JIB.

The BNM had on 10 August 1999 granted its approval for the Proposed Merger and on 16 August 1999, PAB and JIB entered into a conditional Merger of Business Agreement. The approvals of the FIC and SC for the Proposed Merger were obtained on 12 August 1999 and 20 August 1999 respectively.

The purpose of this Circular is to provide you with the relevant details of the Proposed Merger and to seek your approval for the resolution to be tabled at the forthcoming EGM to be convened in Cempaka-Raya Room, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail 50250 Kuala Lumpur on Wednesday, 10 November 1999 at 10.00 a.m.. The Notice of the EGM together with the Form of Proxy are enclosed herewith in this Circular.

2. DETAILS OF THE PROPOSED MERGER

The Proposed Merger shall be carried out through the following steps, all of which are inter-conditional:-

Step 1 - Proposed Scheme of Transfer

The proposed disposal of the general insurance business operations comprising all the insurance assets and liabilities carried on by PAB to JIB, where the insurance funds assets to be disposed of shall be equal to that of the insurance funds liabilities, at net book value for a nominal cash consideration of RM1.00.

The general insurance business operations of PAB to be disposed of and transferred to JIB at net book values shall include the following:-

- (a) All insurance policies issued by PAB, whether premium paying or not;
- (b) All assets, including equipment and vehicles, directly related to or used for the purpose of the general insurance business operations of PAB free from encumbrances;
- (c) All liabilities directly related to or for the purpose of the general insurance business operations of PAB, including all claims incurred but not reported, reported claims and other insurance-related liabilities recorded in PAB's books; and
- (d) Contracts of PAB such as agreements relating to and entered into in the course of its general insurance business operations.

The constituents and components of the assets and liabilities shall be identified and agreed upon by PAB and JIB as at a business day immediately preceding the Completion Date.

The general insurance business operations of PAB and JIB will be merged and operated under the Merged Entity. Pursuant to Section 31 of the Act, PAB shall surrender its insurance licence to BNM.

The proposed disposal of the general insurance business operations by PAB is not expected to result in any gain/loss to the PCB Group as the insurance funds assets to be disposed of is equalled to that of the insurance funds liabilities.

Step 2 – Proposed Bonus Issue

JIB proposes a bonus issue of 14,575,000 new shares on the basis of 1 new share for approximately every 3.43 existing shares held, to JAB, by capitalising RM4,930,000 from its revaluation reserve account and RM9,645,000 from its retained earnings account.

Based on the audited accounts of JIB as at 31 December 1998, the retained earnings account of JIB is RM44,660,844. In September 1999, JIB revalued its investment in KMR resulting in a revaluation surplus of RM4,930,000.

Details of the revaluation by JIB are as follows:-

	RM'000
JIB'S cost of investment in KMR as at 30 June 1999	5,030
JIB's share of KMR's unaudited NTA as at 30 June 1999	9,960
Revaluation surplus	4,930

On completion of the Proposed Bonus Issue, the issued and paid-up share capital of JIB will increase from RM50,000,000 to RM64,575,000.

The shares to be issued pursuant to the Proposed Bonus Issue shall, upon issue and allotment, rank pari passu in all respect with the existing issued and paid-up capital of JIB, except that they will not be entitled to any dividend and/or distributions which may be declared in respect of the financial year ending 31 December 1999.

Step 3 – Proposed Interim Dividend

JIB proposes to declare an interim dividend to JAB in respect of the financial year ending 31 December 1999, such as to maintain at least RM25,000,000 in the retained earnings account after the Proposed Interim Dividend in order that the Merged Entity shall maintain a shareholders funds of RM100 million, comprising retained earnings of RM25 million and an issued and paid-up share capital of RM75 million.

Step 4 – Increase In Share Capital Of JIB

As agreed by the parties pursuant to the Merger of Business Agreement, JIB will issue 10,425,000 new shares to PAB at par to be satisfied by cash and/or assets, representing 13.9% of the enlarged issued and paid-up share capital of the Merged Entity of 75,000,000 ordinary shares.

The proportion of the cash and/or assets to be paid as consideration shall be determined by PAB and JIB and verified by auditors as at a business day immediately preceding the Completion Date and as such, can only be determined then. For consideration satisfied by cash, it will be financed by internally generated funds. Any assets (which may include shares, bonds, loan stocks, treasury bills and/or Malaysian Government Securities) to be transferred shall be at net book values and free from encumbrances. The cash is proposed to be used for the working capital requirements of the Merged Entity.

On completion, the issued and paid-up share capital of JIB will be increased from RM64,575,000 to RM75,000,000, with 13.9% held by PAB and 86.1% held by JAB.

The initial shareholding structure of the Merged Entity of 13.90%:86.10% (PAB:JAB) is arrived at based on the combined value of existing business and structural value of the general insurance businesses of PAB and JIB as at 31 December 1998 as determined by NMG.

NMG's valuation letter is enclosed in Appendix V of this Circular.

The shares to be issued pursuant to the issue of new shares shall, upon issue and allotment, rank pari passu in all respect with the existing issued and paid-up capital of JIB, except that they will not be entitled to any dividend and/or distributions which may be declared in respect of the financial year ending 31 December 1999.

Step 5 – Proposed Acquisition

PAB will acquire 4,575,000 shares or 6.10% of the enlarged issued and paid-up share capital of 75,000,000 in the Merged Entity, free from all encumbrances, from JAB for a cash consideration of RM17,181,822 or approximately RM3.76 per share to be satisfied in a lump sum cash payment from internally generated funds. No other liabilities will be assumed by PAB arising from the Proposed Acquisition.

The average cost of investment in the 4,575,000 shares in the Merged Entity to JAB is estimated at approximately RM4.3 million. In 1996, JAB acquired the entire issued and paid-up share capital of JIB as part of JAB's listing scheme on the Main Board of the KLSE.

On completion of the Proposed Acquisition, PAB and JAB will have equity interest of 20% and 80%, respectively, in the Merged Entity.

The total consideration for the Proposed Acquisition is based on a "willing buyer willing seller" basis after taking into consideration the total value contributed by PAB and JIB to the Merged Entity.

3. PROSPECTS OF THE PROPOSED MERGER

The Proposed Merger is expected to enhance the growth prospects and financial strength of the Merged Entity, placing it in a better competitive position in the general insurance industry ahead of the impending liberalisation of the financial services sector. Based on the Annual Insurance Report 1998 issued by BNM, PAB ranked 37 out of 47 locally incorporated general insurers, with a market share of 0.8%, in terms of gross premium whilst JIB ranked 14th and has a market share of 2.6% respectively. The combination of both entities under the Proposed Merger is expected to increase the market share of the Merged Entity to approximately 3.3%.

The combination and rationalisation of two agency forces, two branch networks, human resources and information technology resources is expected to improve operational efficiency and achieve economies of scale and cost savings through the elimination and consolidation of duplicate functions including operational management and staff.

The Merged Entity will have a wider geographical representation and customer base. PAB's existing 10 branches (including Head Office) and particularly its branches located in Alor Setar, Tawau and Bintulu where JIB is un-represented, complement JIB's current network of 17 branches (including its head office) throughout Malaysia. In addition, the Proposed Merger is expected to enhance the Merged Entity's market share and penetration through cross-selling of insurance products and services.

PAB's portfolio mix, in terms of total gross written premiums for the financial year ended 31 December 1998, which is 55% motor and 22% fire is expected to complement the portfolio mix of JIB of which 24% is motor and 41% is fire for the same period.

The Merged Entity is proposed to be capitalised with an issued and paid-up share capital of RM75 million and a total shareholders' funds of RM100 million. This will enable the Merged Entity to underwrite larger risks and retain more premium, with lower dependence on reinsurance.

4. RATIONALE FOR THE PROPOSED MERGER

The merger of insurance companies in Malaysia is encouraged by BNM with the view of creating entities with greater capacity and efficiency to meet the challenges of the insurance industry.

The Proposed Merger is expected to enhance the financial strength, underwriting capacity, technical expertise, operational efficiency, growth and performance of the merged entity through the expansion of its market share and will strengthen the merged entity's position in the general insurance industry. To this effect, PCB is therefore expected to enjoy the same benefit via PAB's 20% investment in the Merged Entity.

5. EFFECTS OF THE PROPOSED MERGER

5.1. On Issued and Paid-up Share Capital

The Proposed Merger will have no effect on the issued and paid-up share capital of PCB as the Proposed Merger does not involve the issue of shares by PCB.

5.2. On Shareholding Structure

The Proposed Merger will have no effect on the shareholding structure of PCB as the Proposed Merger does not involve the issue of shares by PCB.

5.3. On NTA

The Proposed Merger will have no proforma effect on the audited NTA of PCB Group as at 31 December 1998.

5.4. On Earnings

Barring any unforeseen circumstances and assuming completion of the Proposed Merger during the fourth quarter of 1999, the Proposed Merger is not expected to have a material effect on the earnings of the Group for the financial year ending 31 December 1999.

However, the Proposed Merger is expected to contribute positively to the future earnings of the Group.

6. CONDITIONS OF THE PROPOSED MERGER

The Proposed Merger is subject to the following approvals:-

- (i) BNM (which was obtained on 10 August 1999);
- (ii) Securities Commission (which was obtained on 20 August 1999);
- (iii) Foreign Investment Committee (which was obtained 12 August 1999);
- (iv) shareholders of JAB at an Extraordinary General Meeting to be convened on 25 October 1999;
- (v) shareholders of PCB at an Extraordinary General Meeting to be convened; and
- (vi) confirmation by the Court for the Proposed Scheme of Transfer.

7. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

- 7.1. None of the Directors and/or substantial shareholders and/or persons connected to the Directors and/or substantial shareholders of PCB have any interest, direct or indirect, in the Proposed Merger.

8. DIRECTORS' RECOMMENDATION

- 8.1. Your Directors, after careful deliberation, are of the opinion that the Proposed Merger is in the interest of PCB. Accordingly, your Directors recommend that you vote in favour of the Ordinary Resolution pertaining to the Proposed Merger to be tabled at the forthcoming EGM.

9. EXTRAORDINARY GENERAL MEETING

- 9.1. The EGM notice of which is enclosed in this Circular, will be held at Cempaka-Raya Room, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail 50250 Kuala Lumpur on Wednesday, 10 November 1999 at 10.00 a.m. to seek your approval for the Proposed Merger.
- 9.2. If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the Form of Proxy enclosed with this Circular in accordance with the instructions printed thereon as soon as possible, and in any event, so as to arrive at the Registered Office of the Company not later than forty-eight (48) hours before the time of the EGM. The completion and lodgement of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

10. ADDITIONAL INFORMATION

- 10.1 Shareholders are advised to refer to the attached appendices for further information.

Yours faithfully
For and on behalf of the Board of Directors

TUN DATO' HAJI OMAR YOKE LIN ONG
Chairman

APPENDIX I

INFORMATION ON PAB

1.0 HISTORY AND BUSINESS

PAB's insurance business operations commenced in 1958 as the Malaysian branch office of The Nanyang Insurance Company Ltd. of Singapore, underwriting various classes of general insurance. The business was later incorporated in Malaysia on 4 November 1976 under the Companies Act, 1965 as Nanyang Insurance Company (M) Berhad. On 11 May 1993, the company became a subsidiary of Paramount Corporation Berhad. To reflect the new status, the company changed its name to Paramount Assurance Sendirian Berhad on 21 July 1993. On 7 May 1997, the company was converted to a public company and changed its name to Paramount Assurance Berhad.

Currently, PAB is principally involved in the underwriting of all the main classes of general insurance, namely fire, marine, motor and miscellaneous, and is operating through its head office at Menara Dion, Jalan Sultan Ismail, Kuala Lumpur with a network of 10 branches located throughout Peninsular and East Malaysia. PAB is represented by more than 640 intermediaries throughout Malaysia.

2.0 SHARE CAPITAL

As at 15 October 1999, the authorised share capital of PAB is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each of which RM35,360,000 comprising 35,360,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

Details of the changes in the issued and paid-up share capital are as follows :-

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Total Issued and Paid-up Capital RM
04.11.76	2	1.00	Cash	2
03.01.77	10,000	1.00	Cash	10,002
04.01.77	999,998	1.00	Cash	1,010,000
10.08.81	1,540,000	1.00	Cash	2,550,000
20.07.83	2,550,000	1.00	1 for 1 Bonus Issue	5,100,000
11.05.93	3,060,000	1.00	3 for 5 Rights Issue at par	8,160,000
30.09.97	24,480,000	1.00	3 for 1 Rights Issue at par	32,640,000
26.02.99	2,720,000	1.00	1 for 12 Rights Issue at par	35,360,000

3.0 SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of PAB (2% and more) according to the Register of Substantial Shareholders of PAB as at 15 October 1999 are as follows:-

Shareholders	<-----No. of shares held----->			
	Direct	%	Indirect	%
PCB (Note (a))	34,112,000	96.47	—	—
Thamass	1,248,000	3.53	—	—

Note (a):-

The substantial shareholders of PCB (2% and more) according to the Register of Substantial Shareholders of PCB as at 15 October 1999 are as follows:-

Shareholders	<-----No. of shares held----->			
	Direct	%	Indirect	%
Paramount Equities Sdn Bhd	31,325,000	31.62	—	—
Teo Chiang Quan	8,000	0.01	31,654,888	31.95(a)
Southern Acids (M) Berhad	5,519,000	5.57	—	—
Serata Kaya Sdn Bhd	10,639,000	10.74	5,519,000	5.57(b)
Southern Edible Oil Sdn Bhd	333,000	0.34	16,158,000	16.31(c)
Southern Realty Sdn Bhd	2,999,000	3.03	16,491,000	16.65(d)
Banting Hock Hin Estate Co Sdn Bhd	184,000	0.19	19,490,000	19.67(e)
Dato' Low Mong Hua	67,000	0.07	19,674,000	19.86(f)
Bunga Indah (M) Sdn Bhd	3,309,391	3.34	—	—
Gemwood Limited	4,821,750	4.87	—	—
See Hoy Chan Sdn Berhad	—	—	3,309,391	3.34(g)
Teo Soo Chew	—	—	3,309,391	3.34(g)
Teo Soo Weng	—	—	3,309,391	3.34(g)
Teo Soo Kiat	—	—	3,309,391	3.34(g)
Teo Chiang Khai	—	—	3,659,279	3.69(h)

As Bare Trustee

HSBC Nominees (Tempatan) Sdn Bhd	22,229,746	22.44	—	—
DB (M) Nominees (Asing) Sdn Bhd	4,876,750	4.92	—	—
CIMB Nominees (Tempatan) Sdn Bhd	4,600,000	4.64	—	—
Aseam Malaysia Nominees (Tempatan) Sdn Bhd	3,350,125	3.38	—	—

Notes:-

- (a) Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in Paramount Equities Sdn Bhd, Teo Soo Pin Sdn Bhd and Qualipro Corporation Sdn Bhd.
- (b) Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in Southern Acids (M) Berhad.
- (c) Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in Serata Kaya Sdn Bhd and Southern Acids (M) Berhad.
- (d) Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in Southern Edible Oil Sdn Bhd, Serata Kaya Sdn Bhd and Southern Acids (M) Berhad.
- (e) Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in Southern Realty Sdn Bhd, Southern Edible Oil Sdn Bhd, Serata Kaya Sdn Bhd and Southern Acids (M) Berhad.
- (f) Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in Banting Hock Hin Sdn Bhd, Southern Realty Sdn Bhd, Southern Edible Oil Sdn Bhd, Serata Kaya Sdn Bhd and Southern Acids (M) Berhad.
- (g) Deemed interested by virtue of their interests, under Section 6A of the Companies Act, 1965, in Bunga Indah (M) Sdn Bhd.
- (h) Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in Bunga Indah (M) Sdn Bhd, Esteem Corporation Sdn Bhd and Teo Soo Pin Sdn Berhad.

4.0 DIRECTORS

The Board of Directors and their shareholdings in PAB as at 15 October 1999 are as follows:-

Name	<----- No. of Shares Held ----->				Citizenship
	Direct	%	Indirect	%	
Teo Chiang Quan	—	—	34,112,000	96.47 (a)	Malaysian
Tan Sri Dato' Ahmad Sabki bin Jahidin	—	—	—	—	Malaysian
Teo Chiang Khai	—	—	—	—	Malaysian
Md. Taib bin Abdul Hamid	—	—	1,248,000	3.53 (b)	Malaysian
Dzulkifli Mohd Salleh	—	—	—	—	Malaysian
Ong Keng Siew	—	—	—	—	Malaysian

Notes:-

- (a) Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in PCB.
- (b) Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in Thamass.

5.0 SUBSIDIARY AND ASSOCIATED COMPANIES

PAB does not have any subsidiary and associated companies.

6.0 HISTORICAL FINANCIAL INFORMATION ON PAB'S INSURANCE FUND

6.1 Track Record of Profit Performance

The results of PAB's general insurance business operations based on the audited accounts/audited annual BNM Returns for the past 5 years ended 31 December 1994 to 1998 and the unaudited management accounts/BNM Returns for the 6 months period ended 30 June 1999 of PAB are as follows:-

	Audited Year ended 31 December					Unaudited 6-month period ended
	1994	1995	1996	1997	1998	30.06.99
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium	38,999	45,445	47,807	52,769	38,183	18,780
Transfer to profit and loss account	2,156	215	2,937	2,749	(84)	(631)
Taxation	(505)	(290)	(1,496)	(1,830)	—	—
Profit/(loss) after taxation	1,651	(75)	1,441	919	(84)	(631)

Notes:-

- The growth in gross premium from 1994 to 1997 was generally due to the expansion in the motor, fire and miscellaneous lines of business in tandem with the economic performance during the period. The full impact of the economic crisis in 1997 was felt in 1998 resulting in a contraction in gross premium.
- In 1995, a loss after taxation was registered despite the increase in gross premium due to high claims especially from motor insurance. In 1997 and 1998, owing to the economic crisis, higher claims experience, provision for diminution in value of investments and loss on sale of investments affected the performance of the business.
- There were no exceptional nor extraordinary items during the years under review.

6.2 Balance Sheets

The financial position of PAB's insurance business operations based on the audited accounts/audited annual BNM Returns as at the end of financial years 31 December 1994 to 1998 are as follows:-

	Audited <----- As at 31 December ----->				
	1994 RM'000	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000
Assets					
Fixed Assets	1,448	2,800	1,960	2,300	1,764
Investment	12,851	16,343	21,977	28,075	22,701
Term Deposits	18,314	22,382	21,405	36,911	39,643
Amount due from clients, agents and reinsurers	3,220	4,239	7,428	4,124	3,155
Amount due from Holding Company	-	-	6	-	-
Other assets	4,402	4,863	5,398	5,809	6,782
TOTAL ASSETS	40,235	50,627	58,174	77,219	74,045
Liabilities					
Deferred taxation	-	-	933	-	-
Staff retirement benefit	22	120	111	115	118
Amount due to clients, agents and reinsurers	6,667	8,942	10,393	7,195	4,328
Provision for outstanding claims	17,558	23,079	25,705	24,398	29,973
Amount due to Holding Company	56	102	-	48	15
Provision for taxation	516	752	1,060	2,388	-
Other liabilities	3,402	5,878	5,266	4,800	1,638
TOTAL GENERAL BUSINESS LIABILITIES	28,221	38,873	43,468	38,944	36,072
Reserves for unexpired risks	9,128	9,194	9,315	15,665	12,694
Amount due to shareholders	2,886	2,560	5,391	22,610	25,279
	40,235	50,627	58,174	77,219	74,045

AUDITED ACCOUNTS OF PAB FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1998 TOGETHER WITH THE AUDITORS' REPORT THEREON

The audited accounts of PAB for the year ended 31 December 1998 together with the auditors' report have been extracted from the PAB's 1998 Annual Report.

AUDITORS' REPORT

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To the Shareholders of
PARAMOUNT ASSURANCE BERHAD

We have audited the accounts of PARAMOUNT ASSURANCE BERHAD as at 31 December, 1998. The accounts are the responsibility of the Company's directors. Our responsibility is to express an opinion on the accounts based on our audit.

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

In our opinion,

- (a) the accounts give a true and fair view of the state of affairs of the Company as at 31 December, 1998 and of its results and cash flows for the year then ended, and have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards; 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.

ARTHUR ANDERSEN & CO.
No. AF 0103
Public Accountants

Kuala Lumpur
16 March, 1999

HABIBAH BTE ABDUL
No. 1210/5/00(J)
Partner of the Firm

BALANCE SHEET

- 31 DECEMBER, 1998

	NOTE	1998 RM	1997 RM
ASSETS			
GENERAL BUSINESS ASSETS			
Fixed assets	3	1,764,164	2,301,682
Investments	4	74,914,741	79,651,826
Other assets	5	10,618,252	10,080,142
TOTAL ASSETS		87,297,157	92,033,650
LIABILITIES			
GENERAL BUSINESS LIABILITIES			
Deferred liabilities:			
Deferred taxation	6	-	-
Staff retirement gratuity	7	117,544	115,066
Other liabilities	8	35,997,262	38,819,327
TOTAL GENERAL BUSINESS LIABILITIES		36,114,806	38,934,393
PROVISION FOR INSURANCE LIABILITIES			
Reserves for unexpired risks	9	12,693,556	15,664,560
SHAREHOLDERS' FUND			
Share capital	10	32,640,000	32,640,000
Share premium		530,000	530,000
Reserves	11	5,318,795	4,264,697
		38,488,795	37,434,697
TOTAL LIABILITIES AND SHAREHOLDERS' FUND		87,297,157	92,033,650

The accompanying notes are an integral part of this balance sheet.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 1998

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	NOTE	1998 RM	1997 RM
(Deficit)/surplus transferred from Revenue Account		(83,634)	2,748,743
Management expenses	13	(1,451)	(1,981)
Investment income	14	1,111,738	529,006
Other income/(expenditure)	16	27,445	(2,026,026)
Profit for the year before taxation		1,054,098	1,249,742
Taxation	17	—	(2,075,470)
Profit/(loss) for the year after taxation		1,054,098	(825,728)
Retained profits brought forward			
As previously reported		4,264,697	7,141,438
Prior year adjustment	18	—	(2,051,013)
As restated		4,264,697	5,090,425
Retained profits carried forward		5,318,795	4,264,697
Earnings/(loss) per share (sen)	19	3.23	(5.78)

The accompanying notes are an integral part of this account.

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 1998

	Note	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	1998 RM	1997 RM
Gross premium		8,423,582	21,069,867	1,831,728	6,858,016	38,183,193	52,768,935
Less : Reinsurance		(4,780,642)	(2,695,162)	(1,133,169)	(2,865,116)	(11,474,089)	(19,683,551)
Net premium		3,642,940	18,374,705	698,559	3,992,900	26,709,104	33,085,384
(Decrease)/increase in reserves for unexpired risk	9	(178,175)	(1,625,041)	(148,627)	(1,019,161)	(2,971,004)	6,349,666
Earned premium		3,821,115	19,999,746	847,186	5,012,061	29,680,108	26,735,718
Net claims incurred	12	(2,014,736)	(15,867,721)	(365,733)	(2,028,635)	(20,276,825)	(11,795,010)
Net commission		23,944	(934,850)	5,926	(652,817)	(1,557,797)	(2,355,512)
		(1,990,792)	(16,802,571)	(359,807)	(2,681,452)	(21,834,622)	(14,150,522)
Underwriting surplus before management expenses		1,830,323	3,197,175	487,379	2,330,609	7,845,486	12,585,196
Management expenses	13					(11,051,827)	(11,592,548)
Underwriting (deficit)/ surplus						(3,206,341)	992,648
Investment income	14					5,141,053	3,249,619
Bad and doubtful debts recovered/ (provision)	15					229,530	(1,137,368)
Other expenditure	16					(2,247,876)	(356,156)
Transfer to profit and loss account						(83,634)	2,748,743

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER, 1998

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	1998 RM	1997 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation	1,054,098	1,249,742
Adjustments for:		
Depreciation	944,128	1,358,292
Loss/(profit) on sale of fixed assets	4,312	(7,614)
(Write-back)/provision for diminution in value of investments	(2,232,521)	2,934,839
Amortisation of premium on Malaysian Government Securities	107,591	143,733
Loss/(profit) on sale of investments	3,403,450	(783,430)
Provision for retirement benefits	7,839	6,108
Reserves for unexpired risks	(2,971,004)	6,349,666
	317,893	11,251,336
CHANGE IN OTHER ASSETS AND LIABILITIES		
Increase in fixed and call deposits	(259,874)	(23,519,964)
Decrease in reinsurers' deposits	(1,819,297)	(1,043,353)
Increase in other debtors, deposits and prepayments	(1,497,268)	(476,222)
(Increase)/decrease in income due and accrued	(959,444)	64,961
Decrease in amount due from insureds, agents, brokers and reinsurers	969,646	3,303,185
Decrease in amount due to insureds, agents, brokers and reinsurers	(2,866,828)	(3,197,731)
Increase/(decrease) in provision for outstanding claims	5,574,684	(1,307,034)
(Decrease)/increase in sundry creditors and accruals	(1,302,448)	575,170
Decrease in amount due from holding company	—	5,828
(Decrease)/increase in amount due to holding company	(33,118)	48,463
(Increase)/decrease in amount due from related companies	(4,995)	174,564
Increase in amount due to related companies	2,937	1,747
Cash used in operations	(1,878,112)	(14,119,050)
Retirement benefit paid	(5,361)	(2,482)
Income tax paid	(2,554,044)	(1,999,577)
Net cash outflow from operating activities	(4,437,517)	(16,121,109)

	1998	1997
	RM	RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(12,287,538)	(17,244,929)
Proceeds from sale of investments	16,006,003	10,957,570
Purchase of fixed assets	(410,948)	(1,812,713)
Proceeds from sale of fixed assets	—	124,900
Issue of shares	—	24,480,000
Net cash inflow from investing activities	3,307,517	16,504,828
CASH FLOW FROM FINANCING ACTIVITIES		
Shareholders' dividend paid	—	(428,400)
Net cash outflow from financing activity	—	(428,400)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,130,000)	(44,681)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,973,300	2,017,981
CASH AND CASH EQUIVALENTS AT END OF YEAR	843,300	1,973,300

The accompanying notes are an integral part of this statement.

1. PRINCIPAL ACTIVITY

The Company is engaged principally in the underwriting of all classes of general insurance business.

There were no significant changes in these activities during the financial year.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Accounting Convention**

The accounts are prepared under the historical cost convention.

The accounts comply with applicable approved Accounting Standards and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and the Guidelines issued by Bank Negara Malaysia.

Assets and liabilities relate to both general insurance fund and shareholders' fund.

(b) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight line basis to write-off the cost of the assets over their estimated useful lives. The principal annual rates of depreciation are as follows:

Office equipment	10% – 33%
Furniture and fittings	10%
Motor vehicles	20%

(c) Investments

Investments in Malaysian Government Securities are held to maturity and stated at cost adjusted for amortisation of premiums or accretion of discounts. Premiums are amortised on a straight line basis over the period from the date of acquisition to the date of maturity of the securities.

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

Unquoted investments are stated at cost and provision is made for any permanent diminution in value.

(d) Provision For Bad and Doubtful Debts

Specific provisions are made for all identifiable doubtful debts. In addition, full provision is made for all debts outstanding for more than six months.

(e) Income From Investment

Interest income is recognised on an accrual basis whilst dividend income is recognised when declared.

(f) General Insurance Underwriting Results

The underwriting results (other than those arising from inward treaty business), are determined for each class of business after taking into account, inter alia, reserves for unexpired risks, outstanding claims and additional reserves.

(g) Premium Income

Premium income is recognised on the date of assumption of risk and for treaty inwards business on the date of receipt of the accounts.

(h) Premium Deficiency

Provision is made where necessary for premium deficiency, being the anticipated amount required in excess of unearned premiums to meet claims and related expenses to be incurred during the unexpired period of the risks.

(i) Reserves For Unexpired Risks

The reserves for unexpired risks ("RUR") represent the portion of premium income not yet earned at balance sheet date. The RUR at balance sheet date is reduced by the corresponding deduction as commissions ("DAC") as prescribed by Bank Negara Malaysia. The RUR is computed as follows:

- 25% method for marine cargo, aviation cargo and transit business.
- 1/24th method for all other classes of business with the following deduction rates:

Motor and bonds	10%
Fire, engineering and marine hull	15%
Other classes	20%
- 1/8th method for all other classes of overseas inward treaty business.

(j) Deduction as Commissions

Deduction as commissions ("DAC") are costs incurred that vary with and are primarily related directly to the securing of premiums on issue and renewal of insurance policies, net of income derived from reinsures in the course of ceding premiums to reinsures. Recoverable/refundable DAC are normally deferred and calculated on the time apportionment method as used for the calculation of RUR except:

- (i) in the event that the carrying amount of RUR is less than the anticipated claims and related expenses to be incurred; recoverable DAC are then not deferred; and
- (ii) in the event that RUR exceeds anticipated claims and related expenses to be incurred, and the resultant excess is less than the DAC; DAC are then restricted to that excess.

(k) Provision for Claims

Provision is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at 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 calculated in accordance with the guidelines prescribed by Bank Negara Malaysia.

(l) Currency Translations

Transactions in foreign currencies during the year are converted into Ringgit Malaysia at the rates of exchange approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities at balance sheet date are translated into Ringgit Malaysia at the rates of exchange approximating those ruling at that date. All exchange gains and losses are dealt with in the profit and loss account.

(m) Deferred Taxation

Deferred taxation is provided under the liability method for all material timing differences except where there is reasonable evidence that these timing differences will not reverse in the foreseeable future.

(n) Staff Retirement Gratuity

The Company makes provision for unfunded retirement benefits payable to its eligible employees in accordance with the Group's Retirement Benefit Plan.

3. FIXED ASSETS

1998	Furniture and fittings RM	Office equipment RM	Motor vehicles RM	Total RM
Cost				
Beginning of the year	1,189,394	4,178,521	968,192	6,336,107
Additions	9,381	340,727	60,840	410,948
Disposals	(4,113)	(137,198)	—	(141,311)
End of the year	1,194,662	4,382,050	1,029,032	6,605,744
Accumulated Depreciation				
Beginning of the year	346,533	3,122,946	564,946	4,034,425
Additions	106,179	691,038	146,911	944,128
Disposals	(1,942)	(135,031)	—	(136,973)
End of the year	450,770	3,678,953	711,857	4,841,580
Net Book Value	743,892	703,097	317,175	1,764,164
1997				
Cost				
Beginning of the year	551,007	3,382,564	957,836	4,891,407
Additions	639,476	874,464	298,773	1,812,713
Disposals	(1,089)	(78,507)	(288,417)	(368,013)
End of the year	1,189,394	4,178,521	968,192	6,336,107
Accumulated Depreciation				
Beginning of the year	240,835	2,091,489	594,536	2,926,860
Additions	106,269	1,105,970	146,053	1,358,292
Disposals	(571)	(74,513)	(175,643)	(250,727)
End of the year	346,533	3,122,946	564,946	4,034,425
Net Book Value	842,861	1,055,575	403,246	2,301,682

4. INVESTMENTS

	1998		1997	
	Cost RM	Market value RM	Cost RM	Market value RM
Malaysian Government Securities	18,642,270		22,436,904	
Less: Amortisation of premiums	(197,829)		(356,372)	
Less: Provision for diminution in value	-		(467,793)	
	<u>18,444,441</u>	<u>18,814,540</u>	<u>21,612,739</u>	<u>21,612,739</u>
Quoted in Malaysia:				
Shares of corporations	6,576,873		9,621,055	
Less: Provision for diminution in value	(809,238)		(2,391,029)	
	<u>5,767,635</u>	<u>7,763,347</u>	<u>7,230,026</u>	<u>7,230,026</u>
Bonds/loan stocks of corporations	247,331		796,538	
Less: Provision for diminution in value	(41,331)		(224,268)	
	<u>206,000</u>	<u>206,000</u>	<u>572,270</u>	<u>572,270</u>
Bonds of corporation	<u>100,000</u>		<u>100,000</u>	
Fixed and call deposits with:				
Licensed banks	41,899,794		40,879,708	
Finance companies	6,831,396		8,605,083	
Other financial institutions	1,665,475		652,000	
	<u>50,396,665</u>		<u>50,136,791</u>	
Total investments	<u>74,914,741</u>		<u>79,651,826</u>	

5. OTHER ASSETS

	1998 RM	1997 RM
Outstanding premium including agents/brokers balances	4,330,963	5,805,609
Provision for doubtful debts	(2,101,103)	(2,385,638)
	2,229,860	3,419,971
Amount due from reinsures/ceding companies and co-insurers	2,931,789	2,656,319
Provision for doubtful debts	(2,006,843)	(1,951,838)
	3,154,806	4,124,452
Other debtors, deposits and prepayments	4,537,178	2,863,861
Income due and accrued	2,077,127	1,117,683
Amount due from related companies	5,841	846
Cash and bank balances	843,300	1,973,300
	10,618,252	10,080,142

The amount due from related companies relate to premium receivable.

6. DEFERRED TAXATION

	1998 RM	1997 RM
At 1 January	—	933,000
Transfer from profit and loss account	—	(933,000)
At 31 December	—	—
This represents the tax effect of:		
Timing differences between depreciation and capital allowances on fixed assets	635,000	891,000
Timing differences on basis for computing reserves for unexpired risks	(2,071,000)	(2,338,000)
Other timing differences	(2,516,000)	(2,080,000)
	(3,952,000)	(3,527,000)
Deferred taxation benefits which are not expected to reverse in the foreseeable future	(1,107,000)	(988,000)

7. STAFF RETIREMENT GRATUITY

	1998 RM	1997 RM
At 1 January	115,066	111,440
Provision for the year	7,839	6,108
	<hr/>	<hr/>
	122,905	117,548
Benefits paid during the year	(5,361)	(2,482)
	<hr/>	<hr/>
At 31 December	117,544	115,066

8. OTHER LIABILITIES

	1998 RM	1997 RM
Provision for outstanding claims	61,220,186	49,596,648
Less: Recoverable from reinsurers thereon	(31,247,566)	(25,198,712)
	<hr/>	<hr/>
Net outstanding claims	29,972,620	24,397,936
Reinsurers' deposits	422,337	2,241,634
Amount due to reinsurers/ceding companies and co-insurers	3,534,851	6,056,809
Amount due to agents/brokers and insureds	793,364	1,138,234
Other creditors and accrued liabilities	1,254,061	2,556,509
Amount due to holding company	15,345	48,463
Amount due to related companies	4,684	1,747
Provision for taxation	—	2,377,995
	<hr/>	<hr/>
	35,997,262	38,819,327

The amount due to holding company relate to premium refundable and expenses payable.

The amount due to related companies relate to premium refundable.

9. RESERVES FOR UNEXPIRED RISKS

	Fire RM	Motor RM	Marine, aviation and transit RM	Misc. RM	1998 Total RM	1997 Total RM
Reserves for unexpired risks						
At 1 January	2,357,332	11,439,400	440,672	3,804,965	18,042,369	10,590,465
(Decrease)/increase	(270,081)	(1,810,043)	(169,485)	(1,493,590)	(3,743,199)	7,451,904
At 31 December	2,087,251	9,629,357	271,187	2,311,375	14,299,170	18,042,369
Deductions as commissions						
At 1 January	379,306	1,060,127	43,756	894,620	2,377,809	1,275,571
(Decrease)/increase	(91,906)	(185,002)	(20,858)	(474,429)	(772,195)	1,102,238
At 31 December	287,400	875,125	22,898	420,191	1,605,614	2,377,809
Reserves for unexpired risks less deductions as commissions						
At 1 January	1,978,026	10,379,273	396,916	2,910,345	15,664,560	9,314,894
At 31 December	1,799,851	8,754,232	248,289	1,891,184	12,693,556	15,664,560
(Decrease)/increase in net reserves for unexpired risks	(178,175)	(1,625,041)	(148,627)	(1,019,161)	(2,971,004)	6,349,666

10. SHARE CAPITAL

	1998 RM	1997 RM
Ordinary shares of RM1.00 each		
Authorised:		
At 1 January	100,000,000	10,000,000
Increased during the year		90,000,000
At 31 December	100,000,000	100,000,000
Issued and fully paid:		
At 1 January	32,640,000	8,160,000
Issued during the year	-	24,480,000
At 31 December	32,640,000	32,640,000

11. RESERVES

	1998 RM	1997 RM
(a) Distributable: Retained profits	5,318,795	4,264,697

- (b) The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained earnings as at 31 December, 1998.

12. NET CLAIMS INCURRED

1998	Fire RM	Motor RM	Marine, aviation and transit RM	Miscellaneous RM	Total RM
Gross claims paid less salvage	5,923,767	11,074,895	600,593	6,099,726	23,698,981
Reinsurance recoveries	(3,975,023)	(1,689,459)	(323,658)	(3,008,700)	(8,996,840)
Net claims paid	1,948,744	9,385,436	276,935	3,091,026	14,702,141
Net outstanding claims					
At 31 December	2,196,280	23,048,454	447,060	4,280,826	29,972,620
At 1 January	(2,130,288)	(16,566,169)	(358,262)	(5,343,217)	(24,397,936)
Net claims incurred	2,014,736	15,867,721	365,733	2,028,635	20,276,825

1997					
Gross claims paid less salvage	2,518,478	9,737,204	972,213	8,070,707	21,298,602
Reinsurance recoveries	(1,205,218)	(2,274,198)	(665,369)	(4,051,772)	(8,196,557)
Net claims paid	1,313,260	7,463,006	306,844	4,018,935	13,102,045
Net outstanding claims					
At 31 December	2,130,288	16,566,169	358,262	5,343,217	24,397,936
At 1 January	(636,892)	(20,351,071)	(363,393)	(4,353,615)	(25,704,971)
Net claims incurred	2,806,656	3,678,104	301,713	5,008,537	11,795,010

13. MANAGEMENT EXPENSES

	1998 RM	1997 RM
(a) Insurance Fund		
Staff salaries	4,111,534	3,727,982
Directors' remuneration*		
– fees	25,500	9,288
– other emoluments	273,576	356,144
Auditors' remuneration	36,000	36,300
Hire of equipment	40,916	44,955
Rental of office premises paid to third parties	1,155,839	717,612
Depreciation of fixed assets	942,798	1,356,546
Other expenses	4,465,664	5,343,721
	<u>11,051,827</u>	<u>11,592,548</u>
(b) Non-insurance fund		
Depreciation	1,330	1,746
Other expenses	121	235
	<u>1,451</u>	<u>1,981</u>
	<u>11,053,278</u>	<u>11,594,529</u>

* The estimated monetary value of other benefits not included in the above received by one of the directors of the Company was RM13,000 (1997: RM23,887).

14. INVESTMENT INCOME

	1998 RM	1997 RM
(a) Insurance fund		
Interest from:		
Malaysian Government Securities	1,374,529	1,280,422
Bonds/loan stocks quoted in Malaysia	13,649	50
Fixed and call deposits	3,409,625	1,660,522
Others	212,290	79,953
Gross dividends from:		
Shares quoted in Malaysia	125,460	219,522
Others	5,500	9,150
	<u>5,141,053</u>	<u>3,249,619</u>
(b) Non-insurance fund		
Gross dividend from shares quoted in Malaysia	35,964	41,764
Interest from loan stocks, fixed and call deposits	1,075,774	487,242
	<u>1,111,738</u>	<u>529,006</u>
	<u>6,252,791</u>	<u>3,778,625</u>

15. BAD AND DOUBTFUL DEBTS

	1998 RM	1997 RM
Insurance fund		
Provision for doubtful debts	(929,180)	(1,221,954)
Bad debts written off	—	(3,584)
Bad debts recovered	1,158,710	88,170
	<u>229,530</u>	<u>(1,137,368)</u>

16. OTHER INCOME/(EXPENDITURE)

	1998 RM	1997 RM
(a) Insurance fund		
Other income		
Gain on foreign exchange	—	370
Profit on sale of fixed assets	—	24,000
Profit on sale of investments	1,786,207	964,774
Commission and other fees	23,475	84,245
Sundry income	6,728	10,565
Write-back in provision for diminution in value of investments	1,133,403	—
	<u>2,949,813</u>	<u>1,083,954</u>
Other expenditure		
Loss on sale of fixed assets	4,312	16,374
Loss on sale of investments	4,127,582	384
Amortisation of premiums on Malaysian Government Securities	107,591	143,733
Provision for diminution in value of investments	—	1,102,833
Interest on reinsurers' deposits	75,555	131,776
Sundry expenditure	269,990	45,010
Loss on foreign exchange	612,659	—
	<u>5,197,689</u>	<u>1,440,110</u>
Net expenditure	<u>(2,247,876)</u>	<u>(356,156)</u>
(b) Non-insurance fund		
Loss on sale of investments	(1,062,075)	(180,960)
Loss on disposal of fixed assets	—	(12)
Sundry expenditure	(9,598)	(13,048)
Write-back/(provision) for diminution in value of investment	1,099,118	(1,832,006)
	<u>27,445</u>	<u>(2,026,026)</u>
	<u>(2,220,431)</u>	<u>(2,382,182)</u>

17. TAXATION

	1998 RM	1997 RM
Malaysian taxation	—	2,577,980
Transfer from deferred taxation	—	(933,000)
	—	1,644,980
Underprovision of taxation in respect of previous years	—	430,490
	—	2,075,470

There is no tax charge for the year as the Company is in a tax loss position. As at 31 December, 1998, the Company has tax losses of approximately RM1.1 million (1997: Nil) and unutilised capital allowances of approximately RM0.7 million (1997: Nil), which can be used to offset future taxable profits subject to agreement with the Inland Revenue Board.

18. PRIOR YEAR ADJUSTMENT

In prior years, the Company made provisions for doubtful debts based on the booking dates of policies issued. In 1997, the Company adopted the policy to provide for doubtful debts based on the inception dates of policies issued in tandem with its accounting policy on premium recognition and in accordance with Bank Negara Malaysia guidelines.

19. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per ordinary share is calculated by dividing the Company's profit after taxation of RM1,054,098 (1997: RM825,728 loss) by the number of ordinary shares in issue during the year of 32,640,000 (1997: weighted average number of shares in issue during the year of 14,280,000).

20. OTHER COMMITMENTS AND CONTINGENCIES

In accordance with the Insurance Act, 1996, the Company may be required to contribute up to a maximum amount of RM343,445 (1997: RM466,000) to the Insurance Guarantee Scheme Fund.

In the normal course of business, the Company makes various commitments and incurs certain liabilities on behalf of the customers. No material losses are anticipated as a result of these transactions; details of commitments and contingencies are as follows:

	1998 RM	1997 RM
Performance bonds	1,435,880	2,354,190
Advance payment guarantees	3,000	8,000
	1,438,880	2,362,190

21. SEGMENT INFORMATION

	General fund	Shareholders' fund RM	Total RM
Cash flows from:			
Operating activities	(4,780,283)	342,766	(4,437,517)
Investing activities	3,647,374	(339,857)	3,307,517
Financing activities	-	-	-
	(1,132,909)	2,909	(1,130,000)

22. HOLDING AND ULTIMATE HOLDING COMPANY

The holding and ultimate holding company is Paramount Corporation Berhad, a company incorporated in Malaysia.

23. COMPARATIVE FIGURES

The comparative figures have been audited by a firm of public accountants other than Arthur Andersen & Co.

24. MINIMUM CAPITAL REQUIREMENTS

In accordance with the requirements of Section 18(1) of the Insurance Act, 1996 and JPI 26/98 dated 1 October, 1998, the Company is required to have a minimum paid-up share capital of RM35 million by 31 December, 1998.

With the approval from Bank Negara Malaysia, the Company had, on 26 February, 1999, increased its paid-up share capital to RM35.36 million through a rights issue of 2.72 million ordinary shares at RM1.00 each, on the basis of 1 new ordinary share for every 12 existing ordinary shares held.

25. CURRENCY

All amounts are stated in Ringgit Malaysia.

APPENDIX II

INFORMATION ON JAB

1.0 HISTORY AND BUSINESS

JAB was incorporated in Malaysia under the Companies Act, 1965 on 18 October 1995 as a public limited company. In 1996, as part of the listing of JAB on the Main Board of the KLSE, JAB acquired the entire issued and paid-up capital of JIB and undertook a public issue of new ordinary shares. JAB's shares were subsequently listed on 23 September 1996.

The principal activity of JAB is investment holding and the principal activities of its subsidiary companies are underwriting of general insurance, insurance broking, hire purchase and leasing, offshore reinsurance and healthcare administration.

2.0 SHARE CAPITAL

The authorised share capital of JAB is RM500,000,000 divided into 500,000,000 ordinary shares of RM1.00 each of which RM66,811,002 comprising 66,811,002 ordinary shares of RM1.00 each have been issued and fully paid-up.

Details of the changes in the issued and paid-up share capital are as follows :-

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Total Issued and Paid-up Capital RM
18.10.1995	2	1.00	Cash	2
24.06.1996	55,205,000	1.00	Acquisition of 24,000,000 ordinary shares of RM1.00 each in JIB	55,205,002
06.09.1996	11,595,000	1.00	Public issue at RM2.60 per share	66,800,002
14.07.1999	10,000	1.00	Exercise of ESOS	66,810,002
13.09.1999	1,000	1.00	Exercise of ESOS	66,811,002

3.0 SUBSTANTIAL SHAREHOLDER

The substantial shareholders of JAB (2% and more) according to the Register of Substantial Shareholders of JAB as at 11 October 1999 are as follows:

Shareholders	<-----No. of shares held----->			
	Direct	%	Indirect	%
Kuok Brothers Sdn Berhad	27,038,950	40.47	40,000	0.06 (a)
BHR Enterprise Sdn Bhd	11,091,605	16.60	—	—
Sable Investment Corporation	5,384,240	8.06	—	—
Dato' Seri Ismail Farouk bin Abdullah	2,527,630	3.78	—	—
The Miller Insurance Group Limited	2,717,120	4.07	—	—
Ophir Holdings Berhad	2,322,750	3.48	—	—
Ahmad Riza bin Basir	100,000	0.15	11,091,605	16.60 (b)
Puan Sri Hamidah bt Abdul Rahman	—	—	11,091,605	16.60 (b)
Roshayati bt Basir	—	—	11,091,605	16.60 (b)
Rosilawati bt Basir	—	—	11,091,605	16.60 (b)
Rozanazetti bt Basir	—	—	11,091,605	16.60 (b)
Frank Tsao Wen King	—	—	5,384,240	8.06 (c)
Kuok Foundation Berhad	—	—	2,322,750	3.48 (d)

As Bare Trustee

Malaysia Nominees (Asing) Sdn Bhd	3,261,000	4.88	—	—
Syarikat Nominee Bumiputera (Tempatan) Sdn Bhd	11,091,605	16.60	—	—
Citicorp Nominees (Asing) Sdn Bhd	2,860,360	4.28	—	—
R C Nominees (Tempatan) Sdn Bhd	2,158,000	3.23	—	—
Malaysia Nominees (Tempatan) Sdn Bhd	1,699,000	2.54	—	—
TCL Nominees (Asing) Sdn Bhd	2,100,000	3.14	—	—
Universal Trustee (Malaysia) Berhad	1,575,000	2.36	—	—

Notes:-

- Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in Taloh Sdn Bhd.*
- Deemed interested by virtue of their interest, under Section 6A of the Companies Act, 1965, in BHR Enterprise Sdn Bhd.*
- Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in Sable Investment Corporation.*
- Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in Ophir Holdings Berhad.*

4.0 DIRECTORS

The details of the Directors of JAB according to the Register of Directors as at 11 October 1999 together with their respective shareholdings are as follows:

Name	<----- No. of Shares Held ----->				Citizenship
	Direct	%	Indirect	%	
Datuk Khor Chin Poey	32,000	0.05	—	—	Malaysian
Kuok Khoon Ean	—	—	10,000	0.01 (a)	Malaysian
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	40,000	0.06	—	—	Malaysian
Dato' Seri Ismail Farouk bin Abdullah	2,527,630	3.78	—	—	Malaysian
Ahmad Riza bin Basir	100,000	0.15	11,091,605	16.60 (b)	Malaysian
Tam Chiew Lin	—	—	—	—	Malaysian
Dato' Lim Chee Wah	10,000	0.01	—	—	Malaysian
Anwarudin bin Haji Abdul Rahman	25,000	0.04	—	—	Malaysian
Tan Yew Jin	10,000	0.01	103,500	0.15 (c)	Malaysian
Robert H. Stead (Alternate to Datuk Khor Chin Poey)	—	—	—	—	British

Notes:-

- (a) *Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in Safetide Sdn Bhd.*
- (b) *Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in BHR Enterprise Sdn Bhd.*
- (c) *Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in TYJ Sdn Bhd.*

Datuk Khor Chin Poey, Tan Yew Jin and Robert H. Stead hold share options for 250,000, 175,000 and 125,000 ordinary shares of RM1.00 each in JAB respectively, granted under the JAB Employee Share Option Scheme at an exercise price of RM3.19 per share.

5.0 SUBSIDIARY AND ASSOCIATED COMPANIES

5.1 Subsidiary Companies

As at 11 October 1999, details of subsidiary companies of the JAB Group are as follows:-

Name	Paid-up capital	Effective interest %	Country/ date of incorporation	Principal activity
Subsidiary Companies				
Jerneh Insurance Bhd	RM50,000,000	100	Malaysia 5.8.1970	Underwriting of general insurance business
Jerneh Credit Leasing Sdn Bhd	RM1,000,000	100	Malaysia 12.12.1996	Hire-purchase & leasing
Jerneh Asia Reinsurance Ltd	USD3,200,000	100	Labuan, Malaysia 25.9.1997	Offshore reinsurance
Jerneh Investments (S) Pte Ltd *	S\$67,000	100	Singapore 21.2.1983	Dormant
Jerneh Healthcare Services Sdn Bhd	RM250,000	100	Malaysia 22.1.1998	Healthcare administration and consultancy services
Jerneh Insurance (HK) Limited (formerly known as Kerry Insurance Ltd)	HK\$50,000,000	100	Hong Kong 13.2.1981	General insurer
Jerneh Healthcare Services (HK) Limited (formerly known as Kerry Medical Services Ltd) #	HK\$500,000	100	Hong Kong 12.2.1991	Dormant
Jerneh Reinsurance Management Limited (formerly known as Kerry Reinsurance Management Company Ltd) #	HK\$100,000	100	Hong Kong 4.11.1986	Dormant
Taishan Insurance Brokers Ltd	HK\$1,000,000	100	Hong Kong 22.10.1991	Insurance broker

Notes:-

- held through Jerneh Insurance (HK) Limited

* - held through JIB

5.2 Associated Company

As at 11 October 1999, details of associated companies of the JAB Group are as follows:-

Name	Paid-up capital	Effective interest %	Country/ date of incorporation	Principal activity
Kian Min Realty Sendirian Berhad *	RM12,000,000	25	Malaysia 24.3.80	Investment in real property
Taishan Insurance Brokers Philippines, Inc	Peso3,000,000	40	Philippines 11.8.1995	Insurance broker
KRM Reinsurance Brokers Phils, Inc	Peso3,000,000	40	Philippines 15.8.1995	Reinsurance broker
Generali Asia N.V.	Euro50,000	40	Netherlands 26.5.1999	Investment holding
Generalli Pilipinas Holding Company, Inc #	Peso100,000,000	24	Philippines 18.6.1999	Investment holding
Generalli Pilipinas Insurance Company, Inc #	Peso250,000,000	24	Philippines 9.7.1999	General insurance
Generalli Pilipinas Life Assurance Company, Inc #	Peso250,000,000	24	Philippines 9.7.1999	Life insurance

Notes:-

* - held through JIB

- held through Generali Asia N.V

6.0 FINANCIAL RECORDS

The financial results of the JAB Group based on the audited accounts for the past 3 years ended 31 December 1996 to 1998 and the unaudited report on consolidated results for the 6-month period ended 30 June 1999 are as follows:-

	Audited			Unaudited
	Year ended 31 December			6-month
	(i) 1996	1997	1998	period ended
	RM'000	RM'000	RM'000	30.06.99
				RM'000
Turnover	162,993	172,939	178,799	102,367
Profit before tax before exceptional item	25,400	23,915	27,667	17,465
Exceptional item	—	—	—	(iii) 2,266
Taxation	25,400	23,915	27,667	19,731
	(8,284)	(8,435)	(12,849)	(iv) (127)
Profit after tax before minority interest	17,116	15,480	14,818	19,604
Minority interest	—	—	—	—
Profit after tax and minority interest	17,116	15,480	14,818	19,604
Extraordinary items	—	—	—	—
Profit after tax attributable to Shareholders	17,116	15,480	14,818	19,604
Number of ordinary shares in issue	('000)	66,800	66,800	66,800
Net EPS	(sen)	(ii) 29.45	23.17	22.18
				(v) 58.70
Gross dividend rate	(%)	8	8	10
				—

Notes :-

- (i) Group results are based on the 12-month period to 31 December 1996 under the merger method of consolidation notwithstanding the date of incorporation of JAB is on 18 October 1995.
- (ii) Based on the weighted average number of 58,103,750 ordinary shares in issue during the period.
- (iii) An exceptional item of RM2.266 million arose during the period due to reserve arising from consolidation in respect of JAB's recent acquisition of Jerneh Insurance (HK) Ltd (formerly known as Kerry Insurance Ltd) and Taishan Insurance Brokers Ltd.
- (iv) No provision for taxation was made as 1999 is a tax exempt year for Malaysia. The taxation is in respect of JAB's foreign subsidiary companies.
- (v) Annualised.

APPENDIX III

INFORMATION ON JIB

1.0 HISTORY AND BUSINESS

JIB was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 5 August 1970. The principal activity of JIB since its incorporation is the provision of general insurance.

JIB commenced operations in 1971 as the insurance arm of the Kuok group of companies, to service the insurance needs of its shareholders and has now expanded successfully to include clientele outside of the Kuok group of companies. JIB has a well diversified and balanced business portfolio, underwriting all the main classes of general insurance such as fire, marine, motor and miscellaneous insurance.

JIB currently has a branch network comprising 17 branches (including its head office) located throughout Peninsular and East Malaysia and is supported by an agency force of approximately 590 agents.

2.0 SHARE CAPITAL

The authorised share capital of JIB is RM150,000,000 divided into 150,000,000 ordinary shares of RM1.00 each of which RM50,000,000 comprising 50,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

Details of the changes in the issued and paid-up share capital are as follows :-

Date of Allotment	No. of Shares Allotted	Par Value RM	Consideration	Total Issued and Paid-up Capital RM
05/08/1970	2	1.00	Cash	2
03/02/1971	999,998	1.00	Cash	1,000,000
07/04/1977	400,000	1.00	Cash	1,400,000
14/04/1977	100,000	1.00	Cash	1,500,000
25/04/1983	5,250,000	1.00	Bonus issue (7 for 2)	6,750,000
24/10/1991	10,125,000	1.00	Bonus issue (3 for 2)	16,875,000
25/11/1991	4,631,250	1.00	Special Bumiputera issue at RM1.50 per share	21,506,250
31/12/1991	2,493,750	1.00	Special Bumiputera issue at RM1.50 per share	24,000,000
17/12/1997	22,437,500	1.00	Cash	46,437,500
17/12/1997	3,562,500	1.00	Bonus issue	50,000,000

3.0 SUBSTANTIAL SHAREHOLDER

The substantial shareholders of JIB (2% and more) according to the Register of Substantial Shareholders of JIB as at 11 October 1999 are as follows:-

Shareholders	<-----No. of shares held----->			
	Direct	%	Indirect	%
JAB	50,000,000	100.00	—	—
Kuok Brothers Sdn Berhad	—	—	50,000,000	100.00 (a)

Notes:-

- (a) Deemed interested by virtue of its interest, under Section 6A of the Companies Act, 1965, in JAB.
- (b) Substantial shareholders of JAB are disclosed in Appendix II of this Circular.

4.0 DIRECTORS

The Board of Directors and their shareholdings in JIB as at 11 October 1999 are as follows:-

Name	<----- No. of Shares Held ----->				Citizenship
	Direct	%	Indirect	%	
Datuk Khor Chin Poey	—	—	—	—	Malaysian
Kuok Khoon Ean	—	—	—	—	Malaysian
YM Raja Dato' Seri Abdul Aziz bin Raja Salim	—	—	—	—	Malaysian
Dato' Seri Ismail Farouk bin Abdullah	—	—	—	—	Malaysian
Ahmad Riza bin Basir	—	—	50,000,000	100.00 (a)	Malaysian
Tam Chiew Lin	—	—	—	—	Malaysian
Dato' Lim Chee Wah	—	—	—	—	Malaysian
Anwarudin bin Haji Abdul Rahman	—	—	—	—	Malaysian
Tan Yew Jin	—	—	—	—	Malaysian
Robert H. Stead	—	—	—	—	British

Note:-

- (a) Deemed interested by virtue of his interest, under Section 6A of the Companies Act, 1965, in JAB and BHR Enterprise Sdn Bhd.

5.0 SUBSIDIARY AND ASSOCIATED COMPANIES

5.1 Subsidiary Company

As at 11 October 1999, details of the subsidiary company of JIB are as follows:-

Name	Paid-up capital	Effective interest %	Country/ date of incorporation	Principal activity
Jerneh Investment (S) Pte Ltd	S\$67,000	100	Singapore 21/2/83	Dormant

5.2 Associated Company

As at 11 October 1999, details of the associated company of JIB are as follows:-

Name	Paid-up capital	Effective interest %	Country/ date of incorporation	Principal activity
Kian Min Realty Sendirian Berhad	RM12,000,000	25	Malaysia 24/3/80	Investment in real property

6.0 FINANCIAL RECORDS

The financial results of JIB based on the audited accounts for the past 5 years ended 31 December 1994 to 1998 and the unaudited accounts for the 6-month period ended 30 June 1999 are as follows:-

		Audited					Unaudited
		Year ended 31 December					6-month period ended
		1994	1995	1996	1997	1998	30.06.99
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover		112,158	@148,589	154,894	163,808	165,756	97,122
Profit before tax		19,913	18,265	24,737	23,571	28,711	16,738
Taxation		(5,507)	(5,718)	(8,013)	(7,743)	(12,320)	(iii) —
Profit after tax		14,406	12,547	16,724	15,828	16,390	16,738
Extraordinary item		—	—	—	—	—	—
Profit after tax attributable to shareholders		14,406	12,547	(ii) 16,724	15,828	16,390	16,738
Number of ordinary shares in issue	('000)	24,000	24,000	24,000	50,000	50,000	50,000
Net EPS	(sen)	(iv) 60.0	(iv) 52.3	(iv) 60.7	(iv) 55.5	32.8	(vi) 48.2
Gross dividend rate	(%)	20	50	30	(v) 148	25	—

Notes:-

- (i) *Mainly due to JIB's business development programme to comply with BNM's directive to have at least 25% of the portfolio to be motor business. Also, there was growth in the construction industry, which led to premium growth in construction related insurance business such as contractors all risk, workman's compensation and performance bonds.*
- (ii) *The increase in PAT is due to higher retention ratio and increase in investment income.*
- (iii) *No provision for taxation was made as 1999 is a tax exempt year.*
- (iv) *Based on the weighted average number of 27,562,500 and 28,497,396 shares in issue for 1996 and 1997 respectively.*
- (v) *134% interim dividend and 14% final dividend.*
- (vi) *Annualised.*
- (vii) *There were no exceptional items during the years under review.*

AUDITED ACCOUNTS OF JIB FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1998 TOGETHER WITH THE AUDITORS' REPORT THEREON

The audited accounts of JIB for the year ended 31 December 1998 together with the auditors' report thereon are extracted from JIB's 1998 Annual Report.

**REPORT
OF THE AUDITORS**

We have audited the accounts set out on pages 13 to 29 in accordance with approved auditing standards.

In our opinion:

- a. the accounts have been properly drawn up:
 - i. so as to give a true and fair view of the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the accounts of the Company;
 - ii. in accordance with the provisions of the Act so as to give a true and fair view of the state of affairs of the Company as at 31st December 1998 and of its results and cash flows for the year ended on that date;
 - iii. in accordance with applicable approved accounting standards, except for Malaysian Accounting Standard No. 3 in relation to the recognition of premium income as explained in note 1(f) to the accounts.
- 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.

OTHMAN, HEW & CO.

No. AF: 0088

Public Accountants

TANG KIN KHEONG

No. 1501/9/99 (J)

Partner

Kuala Lumpur

1st March 1999

BALANCE SHEET

AS AT 31ST DECEMBER 1998



	Note	1998 RM	1997 RM
ASSETS			
Fixed assets	2	2,399,630	2,410,637
Investments	3	145,754,364	115,921,273
Subsidiary company	4	93,725	93,725
Associated company	5	5,030,194	5,030,194
Other assets	6	156,066,586	157,946,867
Total assets		309,344,499	281,402,696
LIABILITIES			
Deferred taxation	7		
Other liabilities	8	149,650,216	125,435,254
		149,650,216	125,435,254
PROVISION FOR INSURANCE LIABILITIES			
Reserves for unexpired risks	9	65,033,439	68,697,029
Total liabilities		214,683,655	194,132,283
SHAREHOLDERS' FUND			
Share capital	10	50,000,000	50,000,000
Retained profits	11	44,660,844	37,270,413
		94,660,844	87,270,413
Total liabilities and shareholders' fund		309,344,499	281,402,696

The above Balance Sheet is to be read in conjunction with the notes to the accounts on pages 18 to 29.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1998

	Note	1998 RM	1997 RM
Profit before taxation		28,710,777	23,571,080
Taxation	12	(12,320,346)	(7,742,632)
Profit after taxation		16,390,431	15,828,448
Retained profits brought forward		37,270,413	48,993,965
Profits available for appropriation		53,660,844	64,822,413
Dividends	13	(9,000,000)	(27,552,000)
Retained profits carried forward		44,660,844	37,270,413
Earnings per share (sen)	14	32.8	55.5

The above Profit and Loss Account is to be read in conjunction with the notes to the accounts on pages 18 to 29.

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1998



	Note	Fire RM	Motor RM	Marine aviation & transit RM	Miscellaneous RM	Total 1998 RM	Total 1997 RM
Gross premium							
less returns		68,172,795	40,462,328	25,234,419	31,886,867	165,756,409	163,808,085
Reinsurance		(44,036,054)	(6,447,257)	(19,403,723)	(16,341,622)	(86,228,656)	(77,900,685)
Net premium		24,136,741	34,015,071	5,830,696	15,545,245	79,527,753	85,907,400
Decrease/(Increase) in reserves for unexpired risks		(4,368,987)	5,784,792	(1,146,700)	2,579,506	2,848,611	(14,651,907)
* Earned premium		19,767,754	39,799,863	4,683,996	18,124,751	82,376,364	71,255,493
* Net claims incurred	15	(7,021,022)	(26,949,711)	(3,143,335)	(14,111,258)	(51,225,326)	(39,219,133)
* Net commission		(1,210,169)	(3,189,711)	351,636	(1,698,854)	(5,747,098)	(3,050,849)
Underwriting surplus before management expenses		11,536,563	9,660,441	1,892,297	2,314,639	25,403,940	28,985,511
Surplus transferred from Open Underwriting Account						2,589,272	2,020,241
Management expenses	16					(18,346,151)	(18,132,404)
Underwriting surplus after management expenses						9,647,061	12,873,348
Investment income	17					16,607,670	12,916,856
Bad and doubtful debts	18					(1,461,441)	(3,185,534)
Other income less expenditure	19					3,917,487	966,410
Profit before taxation						28,710,777	23,571,080

The above General Insurance Revenue Account is to be read in conjunction with the notes to the accounts on pages 18 to 29.

* These figures do not include transactions from the Open Underwriting Account.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 1998

	1998 RM	1997 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	28,710,777	23,571,080
Adjustments for:-		
Accretion of discounts less amortisation of premiums	(2,413,204)	(1,832,529)
Depreciation	731,703	628,243
Provision for diminution in value of investments	(1,905,045)	2,103,970
Profit on disposal of fixed assets	(1,175)	(17,822)
Loss/(Profit) on sale of investments	377,165	6,467,463
Interest income	(15,386,279)	(11,660,731)
Dividend income	(1,221,391)	(1,256,125)
Fixed assets written off	-	2,112
Transfer to insurance funds	9,511,784	31,757,978
Operating profit before changes in working capital	18,404,335	49,763,639
Changes in trade debtors	(7,742,374)	5,128,901
Changes in sundry debtors	5,290,335	(5,994,232)
Changes in trade creditors	2,671,827	(10,923,789)
Changes in sundry creditors	371,986	(623,707)
Cash generated from operations	18,996,109	37,350,812
Income tax paid	(8,284,571)	(8,329,330)
Net cash from operating activities	10,711,538	29,021,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Issue of shares	-	22,437,500
Proceeds from sale of investments	15,010,313	27,990,145
Proceeds from disposal of fixed assets	10,128	119,631
Purchase of fixed assets	(729,649)	(587,010)
Purchase of investments	(40,902,320)	(52,914,312)
Decrease/(Increase) in fixed deposits	4,383,050	(18,195,591)
Interest received	14,977,985	10,688,670
Dividends received	1,221,391	1,256,125
Net cash used in investing activities	(6,029,102)	(9,204,842)



	1998	1997
	RM	RM
CASH FLOWS FROM FINANCING ACTIVITY		
Dividend paid	(5,040,000)	(27,552,000)
Net decrease in cash	(357,564)	(7,735,360)
Cash and bank balances as at 1st January	6,481,431	14,216,791
Cash and bank balances as at 31st December	6,123,867	6,481,431

The above Cash Flow Statement is to be read in conjunction with the notes to the accounts on pages 18 to 29.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1998

1. SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Convention

The accounts are prepared under the historical cost convention and comply with approved Accounting Standards (except for Malaysian Accounting Standard No. 3 in relation to the recognition of premium income as explained in note 1(f) below) and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and the guidelines issued by Bank Negara.

Assets and liabilities relate to both insurance fund and shareholders' fund.

b. Fixed Assets And Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of fixed assets on a straight line basis over their expected useful lives. The annual rates are as follows:

Computer	20%
Office equipment, furniture and fittings	10%
Motor vehicles	20%
Buildings	2%

c. Investments

Malaysian government securities are stated at cost.

Quoted investments are stated at the lower of cost and market value on the aggregate basis by category of investments.

Unquoted investments are stated at cost and provision is made for any permanent diminution in value.

In the case of Malaysian Government securities, bonds and loan stocks, the costs at which they are stated in the accounts are adjusted, where relevant, for amortisation of premiums or accretion of discounts calculated from the date of purchase to maturity date.

d. Associated Companies

The Company treats as associated companies those companies in which the Company holds a long term equity interest of between 20 and 50 percent and exercises significant influence through management participation.

The results of associated companies are reflected in the accounts only to the extent of dividends received, if any.

e. Provision For Bad And Doubtful Debts

Known bad debts are written off and specific provisions are made for any debts considered to be doubtful of collection.

In addition to the above, all premiums outstanding for more than six months are fully provided for in accordance with Bank Negara Malaysia's Guidelines on the determination of provision for doubtful debts.



1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

f. General Insurance Underwriting Results

The general insurance underwriting results, other than those arising from inward treaty business, are determined for each class of business after taking into account inter alia, reserves for unexpired risks, outstanding claims and additional reserves.

Premium Income

Premium income from direct business are accounted for upon issue of the premium debit notes. This is not in compliance with Malaysian Accounting Standard No. 3 which requires premiums to be taken up on inception date basis. The Company is unable to book in premium income based on inception dates mainly because of late notification by agents of risks entered into on behalf of the Company. The Directors are of the opinion that premiums in respect of risks incepted before 31st December 1998 for which debit notes had still not been issued by that date are not material. Debit notes issued in January 1999 for gross premiums in respect of risks incepted before 31st December 1998 totalled RM1.9 million. After deducting reinsurance outwards and reserves for unexpired risks, the effect on profit before taxation for the year ended 31st December 1998 is RM38,000.

Premiums from reinsurance inwards are taken up in the accounts when notified by the ceding companies.

Reserves For Unexpired Risks

Premiums are considered earned after accounting for reinsurance outwards and reserves for unexpired risks ("RUR"). RUR is computed on the 25% method for marine and aviation cargo, and transit business; 1/24th method for all other classes of general Malaysian business; and 1/8th method for all other classes of overseas inward business, calculated with reference to the month of accounting of premiums.

Inward Treaty Business

The results of inward treaty business are accounted for under the open underwriting method. The open underwriting account is maintained for a period of 3 years from inception of the underwriting year. Transactions are accounted as and when accounts are received.

Provision For Claims

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

g. Investment Income

Interest on government securities and fixed deposits are taken up in the accounts on an accrual basis. Dividend income is recognised on a receipt basis.

h. Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates approximating those ruling on transaction dates. Foreign currency assets and liabilities are translated into Ringgit Malaysia at the approximate exchange rates prevailing at the end of the financial year. All gains and losses on exchange are recognised in the profit and loss account.

i. Deferred Taxation

Provision is made under the liability method for taxation deferred in respect of all timing differences except where it is thought reasonably probable that the effects of such deferrals will continue in the foreseeable future.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1998

2. FIXED ASSETS

	Computer RM	Office equipment, furniture and fittings RM	Motor vehicles RM	Freehold land and building RM	Total RM
1998					
Cost					
Beginning of year	3,119,862	1,071,716	521,613	400,000	5,113,191
Additions	654,360	55,289	20,000	—	729,649
Disposals	—	(19,678)	—	—	(19,678)
End of year	3,774,222	1,107,327	541,613	400,000	5,823,162
Accumulated Depreciation					
Beginning of year	1,970,141	469,349	239,064	24,000	2,702,554
Charge for the year	516,415	99,190	108,098	8,000	731,703
Disposals	—	(10,725)	—	—	(10,725)
End of year	2,486,556	557,814	347,162	32,000	3,423,532
Net book value at beginning of year	1,149,721	602,367	282,549	376,000	2,410,637
Net book value at end of year	1,287,666	549,513	194,451	368,000	2,399,630
1997					
Cost					
Beginning of year	2,749,516	895,195	634,200	400,000	4,678,911
Additions	382,420	204,590	—	—	587,010
Disposals	(12,074)	(28,069)	(112,587)	—	(152,730)
End of year	3,119,862	1,071,716	521,613	400,000	5,113,191
Accumulated Depreciation					
Beginning of year	1,561,024	388,613	157,483	16,000	2,123,120
Charge for the year	421,191	94,954	104,098	8,000	628,243
Disposals	(12,074)	(14,218)	(22,517)	—	(48,809)
End of year	1,970,141	469,349	239,064	24,000	2,702,554
Net book value at beginning of year	1,188,492	506,582	476,717	384,000	2,555,791
Net book value at end of year	1,149,721	602,367	282,549	376,000	2,410,637



3. INVESTMENTS

	1998		1997	
	Carrying value RM	Market value RM	Carrying value RM	Market value RM
Malaysian Government Securities and Treasury Bills, at cost	39,203,787		41,781,287	
Amortisation of premiums	(915,638)		(983,337)	
	<u>38,288,149</u>	<u>38,799,123</u>	<u>40,797,950</u>	<u>39,517,733</u>
Malaysian Government guaranteed loans, at cost	—		1,000,000	
Shares in corporations, at cost:				
— Quoted in Malaysia	20,829,194		12,397,223	
Provision for diminution in value	—		(288,035)	
	<u>20,829,194</u>	<u>33,534,524</u>	<u>12,109,188</u>	<u>26,296,379</u>
— Unquoted	420,000		420,000	
	<u>21,249,194</u>		<u>12,529,188</u>	
Bonds and loan stocks of corporations:				
— Quoted in Malaysia				
— at cost	12,719,544		9,296,784	
— accretion of discounts	1,344,680		630,883	
	<u>14,064,224</u>		<u>9,927,667</u>	
Provision for diminution in value	(198,904)		(1,938,552)	
	<u>13,865,320</u>	<u>13,865,320</u>	<u>7,989,115</u>	<u>7,989,115</u>
— Unquoted				
— at cost	60,533,583		47,008,400	
— accretion of discounts	4,804,618		3,291,620	
	<u>79,203,521</u>		<u>58,289,135</u>	
Property unit trusts quoted in Malaysia, at cost	7,013,521		—	
Equity unit trusts quoted outside Malaysia	—		3,305,000	
Provision for diminution in value	(21)		—	
	<u>7,013,500</u>	<u>7,013,500</u>	<u>3,305,000</u>	<u>3,611,784</u>
Total investments	<u>145,754,364</u>		<u>115,921,273</u>	

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1998

4. SUBSIDIARY COMPANY

	1998	1997
	RM	RM
Unquoted shares at cost	93,725	93,725

The subsidiary company is Jerneh Investments (S) Pte Ltd, which is incorporated in Singapore and wholly-owned by the Company.

The Company is a wholly-owned subsidiary of Jerneh Asia Berhad, a company incorporated in Malaysia. Accordingly the accounts of Jerneh Investments (S) Pte Ltd have not been consolidated with the Company's accounts.

5. ASSOCIATED COMPANY

	1998	1997
	RM	RM
Unquoted shares, at cost	5,030,194	5,030,194

The associated company is Kian Min Realty Sdn Bhd, a company incorporated in Malaysia, in which the Company holds an equity interest of 25% (1997: 25%). The principal activity of the associated company is investment in real property.

6. OTHER ASSETS

	1998	1997
	RM	RM
Outstanding premium including agents/brokers balances	20,390,331	24,016,410
Provision for doubtful debts	(4,658,474)	(2,982,657)
	15,731,857	21,033,753
Amount due from the insurers/ceding companies and co-insurers	34,391,022	21,831,581
Provision for doubtful debts	(5,159,915)	(5,644,744)
	29,231,107	16,186,837
Other debtors, deposits and prepayments	3,685,685	8,976,020
Interest receivable	5,017,280	4,608,986
Fixed deposits		
– with licensed banks in Malaysia	70,746,127	74,095,816
– with licensed finance companies in Malaysia	16,680,835	16,444,177
– banks outside Malaysia	8,849,828	10,119,847
Cash and bank balances	6,123,867	6,481,431
	156,066,586	157,946,867



7. DEFERRED TAXATION

	1998	1997
	RM	RM
At 1st January	-	-
Transfer to profit and loss account	-	-
At 31st December	-	-

Timing differences existing at year end were as follows:		
Timing differences on basis for computing reserves for unexpired risks	(6,400,106)	(4,525,284)
Timing differences between depreciation and capital allowances on fixed assets	1,791,994	1,174,522
Timing differences arising from open underwriting account	(4,829,926)	(5,881,582)
Other timing differences	(7,649,431)	(3,510,997)
	(17,087,469)	(12,743,341)

The deferred tax benefit arising from the above timing differences existing at year end has not been recognised in the accounts.

8. OTHER LIABILITIES

	1998	1997
	RM	RM
Provision for outstanding claims	147,967,299	152,085,641
Recoverable from reinsurers thereon	(75,083,321)	(92,377,037)
Net outstanding claims	72,883,978	59,708,604
Amount due to reinsurers/ceding companies and co-insurers	40,967,186	34,691,769
Amount due to agents/brokers and insureds	4,282,694	7,886,284
Amount due to holding company	9,000,000	5,040,000
Other creditors and accruals	10,263,780	9,891,794
Provision for taxation	12,252,578	8,216,803
	149,650,216	125,435,254

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1998

9. RESERVES FOR UNEXPIRED RISKS

	Fire RM	Motor RM	Marine aviation and transit RM	Misc RM	1998 Total RM	1997 Total RM
Reserves for unexpired risks as at 1st January	9,391,573	23,178,970	5,998,293	10,090,707	48,659,543	34,007,636
(Decrease)/Increase in reserves for unexpired risks	4,368,987	(5,784,792)	1,146,700	(2,579,506)	(2,848,611)	14,651,907
Reserves for unexpired risks as at 31st December	13,760,560	17,394,178	7,144,993	7,511,201	45,810,932	48,659,543
Open underwriting fund	4,235,315	5,244,558	3,989,654	5,752,980	19,222,507	20,037,486
Total insurance reserves	17,995,875	22,638,736	11,134,647	13,264,181	65,033,439	68,697,029

10. SHARE CAPITAL

	1998 RM	1997 RM
Authorised:		
Ordinary shares of RM1 each	150,000,000	150,000,000
Issued and fully paid:		
Ordinary shares of RM1 each		
At beginning of year	50,000,000	24,000,000
Issued at par for cash during the year	—	22,437,500
Bonus issue during the year	—	3,562,500
At end of year	50,000,000	50,000,000

11. RETAINED PROFITS

Subject to agreement with the Inland Revenue Board, the Company has sufficient tax credit under section 108 of the Income Tax Act 1967 to frank the payment of net dividends out of its entire retained profits.

12. TAXATION

	1998	1997
	RM	RM
Malaysian taxation based on the results for the year		
– current	9,161,000	8,550,000
– deferred	–	–
	<u>9,161,000</u>	<u>8,550,000</u>
Tax recoverable from reinsurers	(141,065)	(226,670)
Under/(Over)provision in prior year	3,300,411	(580,698)
	<u>12,320,346</u>	<u>7,742,632</u>

The effective tax rate is high compared to the statutory rate mainly because certain expenses have been disallowed in arriving at the tax chargeable income.

13. DIVIDENDS

	1998	1997
	RM	RM
First interim dividend of 25% (1997: 134%) less tax at 28% (1997: 30%)	9,000,000	22,512,000
Second interim dividend of nil (1997: 14%) less tax at 28%	–	5,040,000
	<u>9,000,000</u>	<u>27,552,000</u>

14. EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the profit after taxation for the year of RM16,390,431 (1997: RM15,828,448) and 50,000,000 (1997: 28,497,396) ordinary shares, being the weighted average number of shares in issue during the year.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1998

15. NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine aviation and transit RM	Misc RM	1998 Total RM	1997 Total RM
Gross claims paid						
less salvage	23,352,325	24,394,719	9,595,767	21,592,008	78,934,819	65,605,034
Re-insurances recoveries	(17,843,227)	(5,208,210)	(7,491,221)	(10,342,209)	(40,884,867)	(41,248,985)
Net claims paid	5,509,098	19,186,509	2,104,546	11,249,799	38,049,952	24,356,049
Net outstanding claims:						
At end of year	5,838,786	43,154,857	4,451,216	19,439,119	72,883,978	59,708,604
At beginning of year	(4,326,862)	(35,391,655)	(3,412,427)	(16,577,660)	(59,708,604)	(44,845,520)
Net claims incurred	7,021,022	26,949,711	3,143,335	14,111,258	51,225,326	39,219,133

16. MANAGEMENT EXPENSES

	1998 RM	1997 RM
Insurance fund:		
Staff salaries	7,471,016	6,856,174
Directors' remuneration:		
– Fee	48,750	45,000
– Other emoluments	13,000	19,000
Auditors' remuneration:		
– statutory audit		
– current year	40,000	35,000
– overprovision in prior year	(5,000)	–
– other services	25,000	19,400
Internal audit expenses	227,380	51,668
Hire of equipment	64,621	23,810
Interest on premium reserve	132,803	705,750
Rent of offices	1,182,303	1,152,343
Depreciation of fixed assets	731,703	628,243
Fixed assets written off	–	2,112
Other expenses	8,392,987	8,535,657
	18,324,563	18,074,157
Non-insurance fund	21,588	58,247
	18,346,151	18,132,404



17. INVESTMENT INCOME

	1998	1997
	RM	RM
Insurance fund:		
Interest from:		
Fixed and call deposits	8,291,592	4,176,810
Malaysian Government Securities	2,786,899	2,944,277
Malaysian Government guaranteed loans	22,822	119,863
Bonds and loan stocks:		
- Quoted in Malaysia	372,177	6,419
- Unquoted	2,803,749	1,684,386
Gross dividends from:		
Shares quoted in Malaysia	685,192	1,078,996
Unquoted shares	3,750	4,078
Unit trust quoted in Malaysia	394,798	-
	<u>15,360,979</u>	<u>10,014,829</u>
Non-insurance fund	1,246,691	2,902,027
	<u>16,607,670</u>	<u>12,916,856</u>

18. BAD AND DOUBTFUL DEBTS

	1998	1997
	RM	RM
Insurance fund:		
Increase in provision for doubtful debts	1,190,988	3,185,534
Bad debts written off	270,453	-
	<u>1,461,441</u>	<u>3,185,534</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1998

19. OTHER INCOME LESS EXPENDITURE

	1998	1997
	RM	RM
Insurance fund:		
Other income		
Profit on sale of investments	24,893	—
Accretion of discounts	2,393,829	1,843,431
Sundry income	141,243	348,920
Interest received on staff loans	36,175	36,578
Profit on disposal of fixed assets	1,175	17,822
Gain on foreign exchange	479,723	3,569,867
Bad debts recovered	—	4,910
Provision for diminution in value of investments written back	699,359	—
	<u>3,776,397</u>	<u>5,821,528</u>
Other expenditure		
Loss on sale of investments	—	525,568
Provision for diminution in value of investments	—	896,132
Amortisation of premiums	274,801	369,150
Interest payable on bond policies	83,759	90,716
Loss on foreign exchange	477,403	—
	<u>835,963</u>	<u>1,881,566</u>
Net other income for insurance fund	<u>2,940,434</u>	<u>3,939,962</u>
Non-insurance fund:		
Other income		
Gain on foreign exchange	—	3,650,507
Accretion of discounts	294,176	358,248
Sundry income	123,522	167,426
Provision for diminution in value of investments written back	1,205,686	—
	<u>1,623,384</u>	<u>4,176,181</u>
Other expenditure		
Loss on sale of investments	402,058	5,941,895
Provision for diminution in value of investments	—	1,207,838
Loss on foreign exchange	244,273	—
	<u>646,331</u>	<u>7,149,733</u>
Net other income/(expenditure) for non-insurance fund	<u>977,053</u>	<u>(2,973,552)</u>
	<u>3,917,487</u>	<u>966,410</u>



APPENDIX IV

DIRECTORS' REPORT FROM JIB TO SHAREHOLDERS OF JIB

20. RELATED PARTY TRANSACTIONS

	1998	1997		
	Amount of transactions RM	Outstanding balance RM	Amount of transactions RM	Outstanding balance RM
Gross premiums received from a substantial corporate shareholder of the holding company and such shareholder's subsidiary, associated and major investee companies	23,205,821	1,139,320	16,934,188	1,113,031
Gross premiums received from companies in which a Director and persons connected with him have substantial interest	3,934,048	1,132,294	4,348,382	405,943
	27,139,869	2,271,614	21,282,570	1,518,974
Rental paid to an associated company	826,534	—	819,741	—

The above transactions were carried out in the ordinary course of business.

21. CAPITAL COMMITMENTS

	1998 RM	1997 RM
Authorised capital expenditure contracted for, not provided for in the accounts	1,685,000	1,700,000

22. OTHER COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain liabilities on behalf of customers. No material losses are anticipated as a result of these transactions. Details of commitments and contingencies are as follows:

	1998 RM	1997 RM
Performance bonds	3,437,749	9,149,189
Tender bond	—	89,250
	3,437,749	9,238,439

23. HOLDING COMPANY

The holding company is Jerneh Asia Berhad, a company incorporated in Malaysia which owns the entire issued share capital of the Company.

24. COMPARATIVE FIGURES

Comparative figures, where appropriate, have been reclassified to conform with the current year's presentation.

APPENDIX IV

DIRECTORS' REPORT FROM JIB TO SHAREHOLDERS OF PCB

JERNEH INSURANCE BERHAD

12th Floor Wisma Jerneh

38 Jalan Sultan Ismail

50250 Kuala Lumpur

18 October 1999

The Board of Directors

Paramount Corporation Berhad

Level 33, Menara Dion

27, Jalan Sultan Ismail

50250 Kuala Lumpur

Dear Sirs,

PARAMOUNT CORPORATION BERHAD'S CIRCULAR TO SHAREHOLDERS IN RELATION TO THE PROPOSED MERGER OF THE GENERAL INSURANCE BUSINESS OPERATIONS OF PARAMOUNT ASSURANCE BERHAD ("PAB") AND JERNEH INSURANCE BERHAD ("JIB") THROUGH THE DISPOSAL BY PAB OF ITS GENERAL INSURANCE BUSINESS OPERATIONS TO JIB

On behalf of the Board of Directors of JIB, I report after due enquiry, that during the period from 31 December 1998 (being the date to which the last audited accounts of JIB have been made up to) to 18 October 1999 (being a date not earlier than fourteen days before the issue of the abovementioned Circular):-

- a) the business of JIB and its subsidiary company have, in the opinion of the Directors, been satisfactory maintained;
- b) in the opinion of the Directors, no circumstances have arisen which have adversely affected the trading or the value of the assets of JIB and its subsidiary company;
- c) the current assets of JIB and its subsidiary company appear in the books at values which are believed to be realizable in the ordinary course of business;
- d) no contingent liabilities have arisen by reason of any guarantees given by JIB and its subsidiary company, other than those that have arisen within the ordinary course of business which amounted to RM2.76 million as at 18 October 1999; and
- e) there have been no changes in the published reserves nor have there been any unusual factors affecting the profit of JIB and its subsidiary company, except to the extent to the profits expected to be achieved by JIB for the period ended 18 October 1999.

Yours faithfully,

For and on behalf of the Board of Directors
JERNEH INSURANCE BERHAD

Robert H. Stead
Director

VALUATION LETTER BY NMG

The Board of Directors
Paramount Corporation Berhad
Level 33, Menara Dion
27 Jalan Sultan Ismail
50250 Kuala Lumpur

22 September 1999

Dear Sirs,

Actuarial Appraisal Values for the Merger of Jerneh Insurance Berhad (JIB) and
Paramount Assurance Berhad (PAB)

This letter has been prepared for inclusion in the Circular to Shareholders to be dated 8 October 1999.

NMG Risk Managers and Actuaries Sdn Bhd ("NMG") was appointed by Jerneh Insurance Berhad ("JIB") and Paramount Assurance Berhad ("PAB") to calculate an appraisal value of each company's general insurance operation as at 31 December 1998. These values were to be determined for the purposes of a proposed merger of the two companies.

NMG's principal brief was to determine the value contributed by each company and recommend an appropriate shareholding ratio for the purposes of the proposed merger. In respect of this work, NMG prepared a Report entitled "Appraisal Values for the Merger of Jerneh Insurance Berhad and Paramount Assurance Berhad", dated 27 April 1999.

As agreed by Jerneh Asia Berhad (JAB) and PAB, the values contributed by JIB and PAB as at 31 December 1998 consist of the following elements:

- Profits from Existing Business, and
- Profits from Future Business (i.e. Structural Value or Goodwill).

The table below shows the breakdown of the values contributed by the two companies.

Table 1: Value contributed by JIB and PAB as at 31 December 1998 (RM'000)

	JIB	PAB	Total
Profit from Existing Business	52,868	10,615	63,483
Structural Value	54,497	6,722	61,219
Total contributed value	107,365	17,337	124,702

The recommended shareholding proportions, as suggested by the relative values contributed, are Jerneh Asia Berhad, 86.10%, and Paramount Assurance Berhad, 13.90%, rounded to two decimal places. These proportions are as set out in the NMG Report referred to above.



FINANCIAL
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NMG FINANCIAL SERVICES CONSULTING

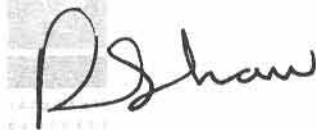
331 NORTH BRIDGE ROAD, #11-01, ODEON TOWERS, SINGAPORE 188720

TEL : (65) 339 8373 FAX : (65) 339 8089

WEBSITE : www.nmg.com.sg

The methodology and assumptions used to determine the recommended shareholder proportions are set out in the NMG Report. A summary of the main assumptions used to derive the above values is set out in the Attachment to this letter.

Yours sincerely,



Rick Shaw, BSc (Hons) FIAA
Senior Consultant

The Board of Directors
Paramount Corporation (PAB)
Level 10, Market Place
17 John Street
Melbourne 3000

21 September 1998

Dear Sirs,

Attached is a copy of the report of the Independent Valuers for the purposes of the proposed acquisition of PAB by Paramount Corporation (PAB).

The report has been prepared for inclusion in the Prospectus for the proposed acquisition of PAB by Paramount Corporation (PAB).

NMG has been engaged by PAB to provide an independent valuation of PAB. The valuation was prepared by NMG on the basis of the information provided by PAB and the assumptions made in the NMG Report. The valuation was prepared for the purposes of the proposed acquisition of PAB by Paramount Corporation (PAB).

NMG's report was prepared for the purposes of the proposed acquisition of PAB by Paramount Corporation (PAB). The valuation was prepared by NMG on the basis of the information provided by PAB and the assumptions made in the NMG Report. The valuation was prepared for the purposes of the proposed acquisition of PAB by Paramount Corporation (PAB).

As agreed by PAB and NMG, the valuation was prepared by NMG on the basis of the information provided by PAB and the assumptions made in the NMG Report. The valuation was prepared for the purposes of the proposed acquisition of PAB by Paramount Corporation (PAB).

- * Profit from Existing Business, and
- * Profit from Future Business (i.e. Structural Value to Shareholders).

The table below shows the breakdown of the value contributed by the two companies.

Table 1: Value contributed by PAB and PAB as at 31 December 1998 (NZ\$ '000)

	PAB	PAB
Profit from Existing Business	10,000	10,000
Profit from Future Business	10,000	10,000
Total contributed value	20,000	20,000

The recommended shareholder proportions, as suggested by the independent valuers, are based on the information provided by PAB and the assumptions made in the NMG Report. The valuation was prepared for the purposes of the proposed acquisition of PAB by Paramount Corporation (PAB).

ATTACHMENT

Main Assumptions used to derive the values contributed by JIB and PAB

Below we set out a brief outline of the methodology and main assumptions used to derive the values (and recommended shareholding proportions) contributed by JIB and PAB to the Merged Entity. More detailed information on the methodology and assumptions is set out in our Report.

1. Methodology

The values contributed by the companies were calculated as the sum of Profits from Existing Business and Structural Values.

Profits from Existing Business were determined as the sum of the Unrealised Capital Gains as at 31 December 1998, profits from Outstanding Claims Reserves (assuming no changes in the strength of outstanding claims reserving practices of both companies) and Unearned Premium Reserves as at 31 December 1998.

Structural Values were calculated as the present value of profits arising from future business. For both companies, future profits were projected for a period of fifteen years, applying relatively realistic assumptions for the first ten years and modest assumptions thereafter.

Both Profits from Existing Business and Structural Values were determined independently for each company; ie, no allowance was made for the potential merger.

2. Discount Rates

Profits arising in the future have been discounted at a net of tax rate of 13% for JIB and 14% for PAB, the difference reflecting the greater degree of uncertainty surrounding PAB's projected future profits.

3. Gross Investment Return

The General Insurance Fund assets are expected to earn 6.5%pa gross of tax.

4. Company Taxation Rate

The rate of taxation is taken as 30% for JIB and 32% for PAB, the difference in tax rates being due to various Malaysian tax regulations.

5. - Loss Settlement Patterns

The loss settlement patterns illustrate the delay (in terms of number of years) between the occurrence of accidents in a given year and the eventual settlement of the claims arising from an accident.

The loss settlement patterns were based on a study of each company's data and are detailed in Appendix C of the Report. Broadly, current speed of claims settlement is assumed to continue into the future for both JIB and PAB.

6. Expense Ratios

Expense ratios are management expenses expressed as a percentage of net premiums. The following Table is reproduced from our Report.

Table 5.3: Expense Ratio

Projection Year	JIB	PAC
1-2	24.0%	32.0%
3-5	23.0%	25.0%
6-10	20.5%	22.0%
11-15	18.5%	20.0%

7. Net Premium Growth Rates

The following Tables are reproduced from our Report.

Table 5.1a: JIB - Central Annual Net Premium Growth Assumptions

Projection Year	Class of Business				Overall
	Motor	Fire	Marine	Others	
1-2	5%	2%	3%	4%	4%
3-5	10%	6%	8%	8%	8%
6-10	8%	8%	8%	8%	8%
11-15	4%	4%	4%	4%	4%

Table 5.2b: PAB - Central Annual Net Premium Growth Assumptions

Projection Year	Class of Business				Overall
	Motor	Fire	Marine	Others	
1-2	20%	10%	10%	20%	18%
3-5	10%	10%	10%	10%	11%
6-10	8%	10%	8%	10%	9%
11-15	4%	4%	4%	4%	4%

The rationale underlying the choice of assumptions is set out in our Report.

8. Ultimate Loss ratios

Ultimate loss ratios are defined as the estimated net claims cost expressed as a percentage of the corresponding net earned premium. The following Tables are reproduced from our Report.

Table 4.4a: JIB - Ultimate Loss Ratio

Projection Year	Class of Business				
	Motor Act	Motor Other	Fire	Marine	Misc
1-2	68.0%	68.0%	38.0%	55.0%	54.0%
3-5	72.0%	72.0%	44.0%	62.0%	62.0%
6-10	77.0%	77.0%	62.0%	67.0%	70.0%
11-15	73.0%	73.0%	73.0%	73.0%	73.0%

Table 4.4b: PAB - Ultimate Loss Ratio

Projection Year	Class of Business				
	Motor Act	Motor Other	Fire	Marine	Misc
1-2	68.0%	68.0%	40.0%	55.3%	63.0%
3-5	72.0%	72.0%	46.8%	61.2%	65.0%
6-10	77.0%	77.0%	61.8%	66.5%	70.0%
11-15	75.0%	75.0%	75.0%	75.0%	75.0%

We assumed increasing loss ratios for both companies to reflect the expected increase in competition due to internal and external forces.

FURTHER INFORMATION

1.0 DIRECTORS' RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board of Directors of PCB and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other material facts, the omission of which would make any statement herein misleading.

Information relating to JIB and JAB have been provided by the management of JIB and JAB and the Directors of PCB have ensured that such information is accurately reproduced in this Circular.

2.0 CONSENT

Aseambankers, JAB, JIB and NMG have given and have not withdrawn their written consents to the inclusion in this Circular of their names in the form and context in which they appear.

3.0 MATERIAL LITIGATION

3.1. Neither PCB nor its subsidiary companies are engaged in any material litigation either as a plaintiff or defendant which has a material effect on the position or business of the Company or any of its subsidiary companies and the Directors are not aware of any proceedings pending or threatened against PCB or its subsidiary companies or of any facts likely to give rise to any proceedings which may materially affect the position or business of PCB and its subsidiary companies.

3.2. As extracted from JAB's Circular To Shareholders dated 8 October 1999, neither JIB nor its subsidiary or associated companies are engaged in any material litigation either as a plaintiff or defendant which has a material effect on the position or business of the Company or any of its subsidiary companies and the Directors are not aware of any proceedings pending or threatened against JIB or its subsidiary companies or of any facts likely to give rise to any proceedings which may materially affect the position or business of JIB and its subsidiary companies.

4.0 MATERIAL CONTRACTS

4.1. Save as disclosed below, PCB and its subsidiary companies have not entered into any material contracts (not being contracts entered into in the ordinary course of business) during the 2 years preceding the date of this Circular which are still subsisting and in force:-

- (i) Merger of Business Agreement dated 16 August 1999 between PAB and JIB for the proposed merger of the general insurance businesses of PAB and JIB through the acquisition by JIB of the assets and liabilities directly related to or in connection with or for the purposes of the general insurance business of PAB.

4.2. As extracted from JAB's Circular To Shareholders dated 8 October 1999 and save as disclosed below, JIB and its subsidiary and associated companies have not entered into any material contracts (not being contracts entered into in the ordinary course of business) during the 2 years preceding the date of this Circular which are still subsisting and in force:-

- (i) Merger of Business Agreement dated 16 August 1999 between PAB and JIB for the proposed merger of the general insurance businesses of PAB and JIB through the acquisition by JIB of the assets and liabilities directly related to or in connection with or for the purposes of the general insurance business of PAB.

5.0 DOCUMENTS FOR INSPECTION

Copies of the following documents will be made available for inspection during normal office hours on any weekday (except public holidays) at the Registered Office of the Company from the date of this Circular to the date of EGM:-

- (i) The Memorandum and Articles of Association of PCB, PAB and JIB;
- (ii) The audited accounts of PCB and JIB for the past 3 financial years ended 31 December 1996 to 1998 and the unaudited 6 months results for the period ended 30 June 1999;
- (iii) The audited accounts and audited annual BNM Returns of PAB for the past 3 years ended 31 December 1996 to 1998 and the unaudited management accounts/BNM Returns for the 6 months period ended 30 June 1999 of PAB;
- (iv) Letters of consent referred to in paragraph 2.0 above;
- (v) Material contract referred to in paragraph 4.0 above;
- (vi) Valuation Report by NMG dated 27 April 1999 and the valuation letter by NMG enclosed in Appendix V of this Circular; and
- (vii) Directors' report from JIB.

PARAMOUNT CORPORATION BERHAD

(Company No. 8578-A)
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at Cempaka-Raya Room, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 10 November 1999 at 10:00 a.m. for the purpose of considering, and, if thought fit, passing the following ordinary resolution:

ORDINARY RESOLUTION

**PROPOSED MERGER OF THE GENERAL INSURANCE BUSINESS OPERATIONS OF
PARAMOUNT ASSURANCE BERHAD ("PAB") AND JERNEH INSURANCE BERHAD
("JIB") THROUGH THE DISPOSAL BY PAB OF ITS GENERAL INSURANCE BUSINESS
OPERATION TO JIB**

THAT, subject to the confirmation by the High Court of Malaya pursuant to Section 128 of the Insurance Act 1996, approval is hereby given for the Proposed Merger of the general insurance businesses of PAB and JIB by the transfer of the general insurance business of PAB to JIB in accordance with the terms of Scheme of Transfer dated 7 September 1999 ("Scheme of Transfer") and the Merger of Business Agreement dated 16 August 1999 ("Merger of Business Agreement") duly executed by PAB and JIB and pursuant thereto:

- (a) the Merger of Business Agreement and the Scheme of Transfer entered into between PAB and JIB and all previous acts done in connection with, incidental to or pursuant to the Merger of Business Agreement and the Scheme of Transfer be and are hereby ratified;
- (b) approval is hereby given for PAB to subscribe for 10,425,000 new ordinary shares of RM1.00 each at par in JIB to be satisfied by cash and/or assets; and
- (c) approval is hereby given for PAB to acquire 4,575,000 ordinary shares of RM1.00 each in JIB for a cash consideration of RM17,181,822, equivalent to approximately RM3.76 per ordinary share of RM1.00 each in JIB.

AND THAT the Directors of the Company be and are hereby authorised to do all acts and things that they consider necessary or expedient in the best interest of the Company to give full effect to the Proposed Merger with full power to assent to any modifications, variations and/or amendments in such manner as may be required by the relevant authorities.

By Order of the Board

Tay Lee Kong
Company Secretary

Kuala Lumpur
25 October 1999

NOTES:

1. *A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies (but not more than two) to attend and vote in his/her stead. A proxy may but need not be a member of the Company. Where a member appoints two proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy.*
2. *The instrument appointing the proxy, in the case of an individual, shall be signed by the appointor, or his/her attorney duly authorised in writing, and in the case of a corporation, either under seal or under the hands of an officer or attorney duly authorised.*
3. *The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 33 Menara Dion, 27, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.*

PARAMOUNT CORPORATION BERHAD

(Company No. 8578-A)
(Incorporated in Malaysia)

FORM OF PROXY

I/We
(FULL NAME IN BLOCK CAPITALS)

of
(FULL ADDRESS)

being a member/members of **PARAMOUNT CORPORATION BERHAD**, hereby appoint

.....
(FULL NAME IN BLOCK CAPITALS)

of
(FULL ADDRESS)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf, at the **EXTRAORDINARY GENERAL MEETING** of the Company to be held at Cempaka-Raya Room, Mezzanine Floor, Hotel Equatorial, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 10 November 1999 at 10:00 a.m. or at any adjournment thereof in the manner indicated below:

RESOLUTION	FOR	AGAINST
ORDINARY RESOLUTION		

(Please indicate with an "X" in the appropriate box above how you wish to cast your vote. If this form is returned without any indication as to how the proxy shall vote, the proxy shall vote or abstain as he/she thinks fit.)

Dated this _____ day of _____ 1999.

Number of ordinary shares held

.....
Signature/Common Seal

NOTES:-

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies (but not more than two) to attend and vote in his/her stead. A proxy may but need not be a member of the Company. Where a member appoints two proxies, the appointment shall be invalid unless he/she specifies the proportion of his/her holding to be represented by each proxy.
2. The instrument appointing the proxy, in the case of an individual, shall be signed by the appointor, or his/her attorney duly authorised in writing, and in the case of a corporation, either under seal or under the hands of an officer or attorney duly authorised.
3. The instrument appointing a proxy must be deposited at the Registered Office of the Company, at Level 33 Menara Dion, 27, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.