

**PART E - INDEPENDENT ADVICE LETTER BY ANDERSEN TO THE
MINORITY SHAREHOLDERS OF LPI IN RELATION TO THE
PROPOSED ACQUISITIONS AND DISPOSALS**



ANDERSEN

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19 February, 2002

To: The Minority Shareholders of LPI

Dear Sir/Madam

PROPOSED ACQUISITIONS AND DISPOSALS OF ORDINARY SHARES OF RM0.50 EACH IN PBB VIA THE OPEN MARKET BY THE LPI GROUP FOR AN AGGREGATE CASH CONSIDERATION OF LESS THAN TWENTY FIVE PER CENT (25%) OF THE NTA OF THE LPI GROUP RESPECTIVELY PROVIDED FURTHER THAT THE NUMBER OF PBB SHARES TO BE ACQUIRED AND DISPOSED OF ON THE OPEN MARKET SHALL RESPECTIVELY BE LIMITED TO AMOUNTS WHEREBY THE RELEVANT APPLICABLE PERCENTAGE RATIOS UNDER CHAPTER 10 PART B 10.02 (h) OF THE KLSE LISTING REQUIREMENTS SHALL BE LESS THAN TWENTY FIVE PER CENT (25%) (“PROPOSED ACQUISITIONS AND DISPOSALS”)

1. INTRODUCTION

On 3 January, 2002, the Board announced that the Company is proposing the Proposed Acquisitions and Disposals.

Based on the information set out in Section 4 of this Independent Advice Letter, Tan Sri Dato' Dr. Teh Hong Piow is a Director and substantial shareholder in LPI and PBB. Dato' Yeoh Chin Kee is a Director and shareholder in both LPI and PBB. The several substantial shareholders of LPI, namely, CTHSB, KCSB, SHSB, KPSB, PBCL, KCS and MSB are also shareholders in PBB (details of which are set out in Section 2.1 of Part C).

Therefore, Tan Sri Dato' Dr. Teh Hong Piow and Dato' Yeoh Chin Kee, together with CTHSB, KCSB, SHSB, KPSB, PBCL, KCS and MSB, are deemed interested in the Proposed Acquisitions and Disposals. In view of the above and in compliance with Chapter 10 Part E 10.08 (2) of the KLSE Listing Requirements, the Board of LPI have appointed Andersen to act as the independent adviser to the minority shareholders of LPI in relation to the Proposed Acquisitions and Disposals.

Andersen had, on 9 January, 2002, confirmed to KLSE its eligibility to act as the independent adviser for the Proposed Acquisitions and Disposals.

The purpose of this Independent Advice Letter is to provide the minority shareholders of LPI with an independent evaluation on the Proposed Acquisitions and Disposals.

MINORITY SHAREHOLDERS OF LPI ARE ADVISED TO READ BOTH THIS INDEPENDENT ADVICE LETTER AND PART D OF THIS CIRCULAR AND TO CONSIDER THE RECOMMENDATIONS CONTAINED THEREIN BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED ACQUISITIONS AND DISPOSALS AT THE FORTHCOMING EGM OF THE COMPANY.

2. PARTICULARS OF THE PROPOSED ACQUISITIONS AND DISPOSALS

2.1 Basis of Determining the Purchase and Disposal Consideration

The Proposed Acquisitions and Disposals of PBB Shares will be made via the open market at the prevailing market price at the time of acquisitions or disposals.

The Proposed Acquisitions of PBB Shares will be carried out at the prevailing market price at the time of acquisition provided that the average cost of the total investment in PBB Shares held by LPI Group (including the cost of the existing PBB Shares already held by the LPI Group) after taking into account such new acquisitions of PBB Shares, does not exceed RM2.79 per share, being the last transacted price of PBB Shares on 14 February, 2002.

The Proposed Acquisitions will be financed entirely by internally generated funds. As at 15 January, 2002, the Group has approximately RM169 million of cash in fixed deposits placed with licensed institutions.

The Proposed Disposals will only be carried out via the open market at the prevailing market price at the time of disposal provided that the prevailing market price is more than the average cost of total investment in PBB Shares held by the LPI Group on the date of disposal. The proceeds from the Proposed Disposals will be utilised for working capital purposes.

2.2 Acquisition(s)/Disposal(s) made in the previous twelve (12) months

The LPI Group has acquired 20,001,000 PBB Shares for a total consideration of RM47,038,678 over the period of twelve (12) months ending 14 March, 2002. The purchase prices (based on market prices at the various dates of acquisitions) paid for the PBB Shares range from RM2.13 to RM2.51 per share, with an average price of RM2.35 per share. The LPI Group has not sold any PBB Shares during the same period.

For more details on the acquisitions, please refer to Section 1.2 of Part D.

2.3 Quantum of PBB Shares to be Acquired and Disposed

The aggregate purchase and disposal consideration for the acquisitions and disposals of PBB Shares for the period of one (1) year from 15 March, 2002 will separately be limited to less than twenty five per cent (25%) of the audited NTA of the LPI Group as at 31 December, 2001 provided further that the number of PBB Shares to be acquired and disposed of on the open market shall respectively be limited to amounts whereby the applicable percentage ratios under Chapter 10 Part B 10.02 (h) of the KLSE Listing Requirements shall be less than twenty five per cent (25%). For details of the applicable percentage ratios under Chapter 10 Part B 10.02 (h), please refer to Section 1.3 of Part D.

Therefore, based on the audited consolidated accounts of LPI Group as at 31 December, 2001, the NTA of LPI Group was RM214.9 million. As a result, the aggregate purchase or disposal consideration for the period of one (1) year from 15 March, 2002 will be limited to less than RM53.73 million respectively.

2.4 Time Period of Acquisition and Disposal

The approval to be obtained from the shareholders in respect of the Proposed Acquisitions and Disposals shall be valid for a period of one (1) year, effective from 15 March, 2002. The approval of the shareholders will need to be re-sought for any acquisitions or disposals of PBB Shares after the expiry date.

2.5 Current shareholding of the LPI Group in PBB

The shareholding of the LPI Group in PBB as at 15 January, 2002 is 67,997,520 PBB Shares representing 1.85% of the issued and paid-up share capital of PBB as at the same date.

2.6 Information on PBB

PBB was incorporated in Malaysia on 30 December, 1965 as a limited company and commenced its banking operations on 6 August, 1966. PBB Shares are quoted on the Main Board of the KLSE and has been listed on the KLSE since 6 April, 1967.

The PBB Group's business activities include commercial banking, merchant banking, offshore banking, credit and debit card services, Islamic banking services, deposit-taking and finance, hire purchase financing, leasing, factoring, stock and share broking, trustee and nominee services, and sale of trust units and management of unit trusts. PBB operates an extensive network of 381 branches in Malaysia, comprising 213 commercial bank branches and 168 finance company branches. The number of branches increased from 345 to 381 upon the completion of its merger with HHB on 31 March, 2001. In addition, PBB has also established an overseas branch each in Hong Kong, Sri Lanka, Laos, Vietnam and Cambodia, a representative office in Myanmar and an offshore bank in Labuan International Offshore Financial Centre.

3. CONDITIONS OF THE PROPOSED ACQUISITIONS AND DISPOSALS

The Proposed Acquisitions and Disposals are subject to the following:

- (a) ratification by the FIC for the Proposed Acquisitions, if applicable; and
- (b) the approval of the shareholders of the Company at an EGM to be convened.

4. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Tan Sri Dato' Dr. Teh Hong Piow is a Director and substantial shareholder in LPI and PBB. Dato' Yeoh Chin Kee is a Director and shareholder in both LPI and PBB. The several substantial shareholders of LPI, namely, CTHSB, KCSB, SHSB, KPSB, PBCL, KCS and MSB are also shareholders in PBB (details of which are set out in Section 2.1 of Part C).

Therefore, Tan Sri Dato' Dr. Teh Hong Piow and Dato' Yeoh Chin Kee, together with CTHSB, KCSB, SHSB, KPSB, PBCL, KCS and MSB, are deemed interested in the Proposed Acquisitions and Disposals.

Accordingly, Tan Sri Dato' Dr. Teh Hong Piow and Dato' Yeoh Chin Kee have and will continue to abstain from participating in the Board's deliberations on the Proposed Acquisitions and Disposals and will further abstain from participating in the actual decision to invest and divest in PBB Shares which will be deliberated on by the Investment Committee, in the event that the Proposed Acquisitions and Disposals are approved by the shareholders of LPI. In that respect, any member of the Investment Committee who is a Director or substantial shareholder of PBB is required to abstain from deliberating on the decision to invest and divest in PBB Shares.

The abovementioned interested parties will abstain from voting on the resolution in relation to the Proposed Acquisitions and Disposals at the forthcoming EGM in respect of their direct and indirect shareholdings in LPI.

Save as disclosed above, none of the other Directors or substantial shareholders and persons connected with these directors and substantial shareholders of LPI has any interest, directly or indirectly in the Proposed Acquisitions and Disposals.

5. EVALUATION OF THE PROPOSED ACQUISITIONS AND DISPOSALS

Andersen was not involved in any negotiations nor deliberations pertaining to the Proposed Acquisitions and Disposals. In evaluating the Proposed Acquisitions and Disposals, we have relied on information contained in Part D and the applicable section in Part C of the Circular and other relevant information furnished by the management of LPI, as well as information obtained through discussions with them and other publicly available information. We have assumed that such information has been prepared in good faith and reflect the best judgment and estimates of the Directors and/or management of LPI as of the last practicable date prior to printing of this Independent Advice Letter and that the Directors and/or management of LPI are unaware of any facts that would make the information essential to our evaluation that are provided to us incomplete, misleading or inaccurate. We have not assumed any responsibility for the accuracy of the information given herein and confirm that, after making all reasonable enquiries and to the best knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

In evaluating the Proposed Acquisitions and Disposals, Andersen has not given consideration to the specific investment objectives, financial situation and particular needs of any shareholder or any specific group of shareholders. Andersen does not express or imply any opinion on the commercial merits of the Proposed Acquisitions and Disposals and the Proposals as a whole, which is the sole responsibility of the Board.

We recommend that any individual shareholder or any specific group of shareholders who may require specific advice within the context of their individual objectives, financial situation and particular needs should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser without further delay.

In evaluating the Proposed Acquisitions and Disposals, we have taken into consideration the following principal factors:

- (i) Rationale for the Proposed Acquisitions and Disposals;
- (ii) Method of financing the Proposed Acquisitions;
- (iii) Basis of determining the purchase and disposal consideration;
- (iv) Dividend income from PBB Shares;
- (v) Financial effects of the Proposed Acquisitions and Disposals; and
- (vi) Other considerations.

5.1 Rationale for the Proposed Acquisitions and Disposals

The rationale for the Proposed Acquisitions and Disposals as set out in Part D of this Circular is as follows:

“The LPI Group is primarily involved in investment holding and in the underwriting of all classes of general insurance. As an integral part of its investment holding and general insurance business, the LPI Group regularly invests its funds for the purpose of earning dividend and interest income as well as capital gains. The Group has substantial investments amounting to RM347.9 million, representing approximately 86.7% of its total assets of RM401.3 million based on the audited accounts of LPI Group as at 31 December 2001. These investments include Cagamas Bonds, Malaysian Government Securities, Singapore Government Securities, equity and debt securities of listed and unlisted companies in and outside Malaysia as well as fixed deposits with licensed institutions.”

In determining which corporations to invest in order to realise potential gains upon disposal, the Board and management of the Group has to take into account, amongst others, the financial position and strength of the target company to be invested in.

Based on the evaluation and analysis carried out by the Board and the management of the Group, PBB represents a viable investment option within the financial sector of the KLSE. PBB is currently one of the ten (10) anchor banks in Malaysia and is financially sound.

In assessing the Proposed Acquisitions and Disposals, the Board of Directors and management of the LPI Group have considered the following:

a) Profit Record

The PBB Group has generally, with the exception of the two financial years ended 31 December 1997 and 1998, registered a steady increase in its audited profit after taxation, for financial years ended 31 December 1996 to 2000 and the unaudited results for the nine (9) months period ended 30 September 2001 set out below:

<i>Financial year ended 31 December</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>Unaudited 30 September 2001</i>
<i>Profit after taxation and after minority interests (RM'million)</i>	408.0	274.9	51.2	616.1	716.9	520.0
<i>Net earnings per share (sen)</i>	24.7	16.6	2.3	26.2	30.3	14.9

Source : Annual Reports, Quarterly Announcements of PBB and Bloomberg

The PBB Group has recorded a profit after taxation and after minority interests of RM408.0 million in 1996. As a consequence of the economic turmoil encountered domestically as well as regionally which resulted in, inter alia, higher loan loss provisions, the PBB Group recorded a decrease in profit after taxation and minority interests for the years 1997 and 1998.

In tandem with recovery of the domestic economy, the PBB Group had recorded a strong improvement in its performance. For the financial years 1999 and 2000, the PBB Group recorded a profit after taxation and minority interests of RM616.1 million and RM716.9 million respectively.

For the nine (9) months period ended 30 September 2001, the PBB Group registered a profit after taxation and minority interests of RM520.0 million. The profit after taxation and minority interests increased by RM24.8 million as compared to the same period in year 2000. The increase is primarily due to the higher business volume achieved arising from the merger of the banking business of HHB, which was completed on 31 March 2001 and higher profits from the sale of investment securities. However, the increase was offset by higher loans provision and lower recoveries.

b) Dividend Record and Dividend Yield

PBB has provided its shareholders with a steady dividend stream for financial years ended 31 December 1996 to 2000, as shown below:

<i>Financial year ended 31 December</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>Unaudited 30 September 2001</i>
<i>Gross dividends per share of RM0.50 each (sen)</i>	7.00	4.25	2.00	4.00	7.50	-
<i>Share price (RM)</i>	2.13	0.96	1.60	2.53	2.24	2.23
<i>Gross dividend yield based on share price (%)</i>	3.3	4.4	1.3	1.6	3.3	-

Source : Annual Reports, Quarterly Announcements of PBB and Bloomberg

c) Relatively Stable Market Price of PBB Shares

The market price of PBB Shares has been fairly stable in the past as can be seen from the information shown in table above, save for 1997 and 1998 when the market price of PBB Shares fell with the onset of the bearish sentiment that enveloped the KLSE following the beginning of the regional economic turmoil in the second half of 1997. The price of PBB Shares as at 14 February 2002 was RM2.79.

d) Audited NTA per share

As a result of its financial performance in the past, the audited reserves of the PBB Group have increased steadily as embodied in the rise of the PBB Group's audited NTA per share as tabulated below for the financial years ended 31 December 1996 to 2000 and unaudited results for nine (9) months period ended 30 September 2001:

<i>As at 31 December</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>Unaudited 30 September 2001</i>
<i>Audited net tangible asset backing (RM)</i>	1.48	1.74	1.40	1.62	1.82	1.53
<i>Share price (RM)</i>	2.13	0.96	1.60	2.53	2.24	2.23
<i>Premium/(discount) of share Price over NTA (%)</i>	43.9	(44.8)	14.3	56.2	23.1	45.8

Source : Annual Reports, Quarterly Announcements of PBB and Bloomberg

e) PBB Group as a Reputable Financial Services Organisation

The PBB Group is well recognised for its strong footing in the financial services industry and its sound management. Amongst the awards that have been granted to PBB and its management in the past are:

- i) NACRA Awards – The Industry Excellence Award for the Finance Industry Category in 1988, 1990, 1995, 1996, 1997, 1998, 1999 and 2001;
- ii) NACRA Most Outstanding Annual Report in 1990 and 1996;

- iii) *The Euromoney Awards for Excellence for the Best Managed Bank in Malaysia awarded by Euromoney Magazine to PBB in 1993, 1998 and 1999;*
- iv) *The 1994 ASEAN Businessman Of The Year Award to Y. Bhg. Tan Sri Dato' Dr. Teh Hong Piow awarded by ASEAN Business Forum;*
- v) *The 1994 Industry Excellence Award under the Services Export Excellence for the Financial Category to PBB awarded by the Ministry of International Trade and Industry;*
- vi) *The 1996 Management Awards of Asia for Financial Management Category awarded by the Asian Institution of Management to PBB;*
- vii) *The 1997 Business Achiever of the Year Award to Y. Bhg. Tan Sri Dato' Dr. Teh Hong Piow awarded by Yazhou Zhoukhan Magazine;*
- viii) *The 1999 Best Bank in Malaysia and the 5th Malaysian Best Managed Companies Awards awarded by the Asiamoney Magazine;*
- ix) *The Malaysia' s CEO of the Year Award by Business Times and American Express in 1999;*
- x) *The Finance Asia 1999 and 2000 Annual Country Achievement Awards for Best Domestic Commercial Bank in Malaysia awarded by Finance Asia Magazine to PBB;*
- xi) *The 2000 Asian Banking Awards for the Most Outstanding Customer Service Programme Category awarded by DHL Worldwide Express in partnership with Asian Bankers Association ("ABA") and Association of Development Financing Institution in Asia and the Pacific ("ADFIAP");*
- xii) *The 2000 Best Domestic Bank in Malaysia Award by Global Finance Magazine;*
- xiii) *KLSE Corporate Awards for Exemplary Corporate Conduct – KLSE CORPORATE SECTORAL AWARD for Main Board Finance and Close-End Fund Category and KLSE CORPORATE EXCELLENCE AWARD in 2000;*
- xiv) *The CITRA Annual Report Award 2000 for the Private Sector awarded by Dewan Bahasa & Pustaka;*
- xv) *Bank-Wide ISO 9001:2000 Quality Management Systems Certification;*
- xvi) *The Strongest Bank in Malaysia and Fourth Strongest in Asia in 2000 by Asiamoney Magazine;*
- xvii) *Best Domestic Commercial Bank in Malaysia in 2000 by Finance Asia Magazine;*
- xviii) *Bank of the Year 2001 by the Bankers Magazine;*
- xix) *Special Jury's Award by Anugerah Citra Wangsa Malaysia Sektor Swasta 2001; and*
- xx) *2001 Best Retail Bank for Malaysia by the Asian Banker.*

f) Successful Merger of the Banking Business of PBB and HHB

In February 2000, PBB was named one of the ten (10) anchor banks in Malaysia approved by BNM to form an enlarged banking group comprising PBB, HHB, AFB and SMBB (re-named as Public Merchant Bank Berhad). The merger with HHB, AFB and SMBB was in line with the directive from BNM the consolidation of the banking sector in Malaysia to create strong domestic banking groups to face a more competitive and globalised business environment.

On 26 June 2000, PBB entered into an agreement with HHB to merge the banking business of HHB. PBB completed its acquisition of SMBB in October 2000 and AFB's business in December 2000. Subsequently, the proposed merger of the banking business of HHB was completed on 31 March 2001.

The enlarged banking group serves as a platform for opportunities to rationalise and expand its financial services in Malaysia. As a result, PBB now have greater access to a larger branch network, a geographically well distributed customer base and a range of new financial services and products. (Source: PBB Announcements)"

Based on the above, we are of the opinion that the rationale for the Proposed Acquisitions and Disposals is fair and reasonable.

5.2 Method of Financing the Proposed Acquisitions

The Proposed Acquisitions will be financed entirely by internally generated funds. As at 15 January, 2002, the Group has approximately RM169 million of cash in fixed deposits placed with licensed institutions. The maximum aggregate purchase consideration of approximately RM53.73 million (based on the audited NTA of LPI Group of RM214.9 million as at 31 December, 2001) represent 31.79% of the abovementioned fixed deposits.

Based on the above, the Proposed Acquisitions will not significantly affect the Group's liquidity position as any investment in PBB Shares or other listed securities can be readily converted into cash through sale in the open market should the need arise to augment the cash reserves of the Group. In addition, the current prevailing market price of PBB Shares is above the average cost of the total investment in PBB Shares held by LPI Group. Thus, LPI Group will realise the capital gain in the event LPI Group disposes the PBB Shares based on current prevailing market price of PBB Shares.

5.3 Basis of Determining the Purchase and Disposal Consideration

The basis of determining the purchase consideration for the Proposed Acquisitions as set out in Part D of this Circular is as follows:

"The Proposed Acquisitions of PBB Shares will be carried out at the prevailing market price at the time of acquisition provided that the average cost of the total investment in PBB Shares held by the LPI Group (including the cost of the existing PBB Shares already held by the LPI Group) after taking into account such new acquisitions of PBB Shares, does not exceed RM2.79 per share, being the last transacted price of PBB Shares on 14 February 2002."

Based on the unaudited financial results of PBB for the nine (9) months period ended 30 September, 2001, the net PE multiple and premium to NTA based on the last transacted price of PBB Shares as at 14 February, 2002 of RM2.79 per share are as follows:

Financial period	Net EPS (sen)	Net PE Multiple (times)	NTA per share (RM)	Premium of market price to NTA (%)
9 months period ended 30 September, 2001	14.90	18.72	1.53	82.35

The average cost of total investment in PBB Shares held by the LPI Group (including the cost of the existing PBB Shares already held by the Group) of RM2.79 per Share represents a net PE multiple of 18.72 times and a premium of 82.35% over the unaudited NTA per share as at 30 September, 2001.

A comparison of PBB with other companies listed on the KLSE which are involved in similar businesses is further shown below:

Company	Last transacted price as at 14 February, 2002 (RM)	EPS* (RM)	Net PE multiple (times)	NTA per share* (RM)	Premium/(discount) of market price to NTA (%)
PBB	2.79	0.30	9.30	1.82	53.30
Malayan Banking Berhad	9.05	0.36	25.14	4.27	111.94
Commerce Asset-Holding Berhad	8.60	0.44	19.55	4.39	95.90
Southern Bank Berhad	2.28	0.12	19.00	1.39	64.03
Hong Leong Bank Berhad	4.26	0.28	15.21	2.03	109.85
AMMB Holdings Berhad	4.50	0.39	11.54	2.52	78.57
RHB Capital	2.63	0.12	21.92	1.75	50.29
Affin Holdings Berhad	1.44	-	-	2.13	(32.40)

* Based on the latest available audited accounts
Source: www.klse-ris.com.my, Annual Reports and Bloomberg

Based on the above table, it is noted that PBB's net PE multiple is relatively lower compared to the other companies. This would mean that the share price of PBB, expressed in terms of multiple of its EPS, is lower compared with those of other companies. Therefore, from LPI's view as an investor, PBB share price is relatively cheaper vis-à-vis its earnings. This is also consistent with the calculation of the premium/discount of market price to NTA for PBB Shares as shown above. Therefore, PBB's net PE multiple and premium to NTA is reasonable for LPI's investment consideration.

The basis of determining the Disposal Consideration for the Proposed Disposals as set out in Part D of this Circular is as follows:

"The Proposed Disposals will only be carried out via the open market at the prevailing market price at the time of disposal provided that the prevailing market price is more than the average cost of total investment in PBB Shares held by the LPI Group on the date of disposal."

This will ensure that the LPI Group does not realise a loss on the disposal of its investment in PBB Shares.

Based on the above, we are of the opinion that the basis of determining the purchase and disposal consideration of PBB Shares via the open market is reasonable.

5.4 Dividend Income Received from PBB Shares

The following table compares the dividend per share distributed by companies involved in similar business as PBB (based on latest available audited accounts of the respective companies):

Company/(Financial Year End)	Gross Dividend per Share				
	1997 (RM)	1998 (RM)	1999 (RM)	2000 (RM)	2001 (RM)
PBB (31 December)	0.04	0.02	0.04	0.08	n/a
Malayan Banking Berhad (30 June)	0.17	0.11	0.09	0.13	0.09
Commerce Asset-Holding Berhad (31 December)	0.04	0.04	0.06	0.04	n/a
Southern Bank Berhad (31 December)	0.07	0.03	0.03	0.03	n/a
Hong Leong Bank Berhad (30 June)	0.05	0.04	0.05	0.10	0.11
AMMB Holdings Berhad (31 March)	0.12	0.04	0.01	0.07	0.04
RHB Capital (30 June)	0.07	0.08	0.02	0.07	0.04
Affin Holdings Berhad (31 December)	0.01	0.01	0.01	0.01	n/a

Source : *www.klse-ris.com.my and Bloomberg*

It can be seen from the table above, PBB's dividend per share to shareholders is relatively higher as compared to some of the other companies.

Based on the above, even if the LPI Group does not dispose of its PBB Shares to realise the capital gains, LPI Group is likely to, based on the historical track record of dividends above, benefit from the investment in PBB Shares through the dividend income.

5.5 Financial Effects of the Proposed Acquisitions and Disposals

The financial effects of the Proposed Acquisitions and Disposals on LPI are illustrated below:

(a) Share Capital

The Proposed Acquisitions and Disposals will not have any effect on the issued and paid-up share capital of the Company.

(b) NTA

The acquisition of PBB Shares will not have any effect on the NTA of the Group. Any potential effect on the NTA of the Group would depend on the disposal price of PBB Shares and on the number of PBB Shares disposed.

(c) Earnings

The Proposed Acquisitions and Disposals are expected to contribute positively to the earnings of the Group for the financial year ending 31 December 2002 in the form of dividend income and/or capital gain.

(d) Shareholdings

The Proposed Acquisitions and Disposals will not have any effect on the shareholding structure of the Company.

Based on the above, the Proposed Acquisitions and Disposals are not expected to have any material adverse financial effects on the LPI Group.

5.6 Other Considerations

(a) Time Period of Acquisition and Disposal

Upon the approval from the shareholders of LPI on the Proposed Acquisitions and Disposal, LPI Group will be acquiring and disposing PBB Shares over a period of one (1) year, effective from 15 March, 2002. As the Proposed Acquisitions and Disposals are carried out over an extended period of time for which there are inherent risks, no guarantee can be given that the current evaluation will remain valid throughout the entire one (1) year period.

(b) Margin of Solvency

Margin of solvency can be defined as the amount of total admitted assets available to meet the total liabilities of a licensed insurer, over an above the specified minimum amount.

The value of PBB Shares that can contribute towards the margin of solvency of the Group's insurance business is limited to the lower of 5% of PBB's issued and paid-up share capital or 5% of the margin of solvency. Should the value of PBB Shares invested by using the funds in the Group's insurance business exceed these limits, there would be an opportunity cost of the resources invested as a result of not being able to contribute to the margin of solvency.

(c) Business Risks

The PBB Group has a diversified range of business activities in the financial service industry, which includes among others, commercial banking, merchant banking, offshore banking, credit and debit card services and Islamic banking services. The PBB Group is hence subject to inherent risks in the financial services industry, which may have an impact on the share price of PBB.

(d) Share Price

The market price of PBB Shares is subject to fluctuations and there can be no guarantee that the current prevailing market price will be maintained in the medium to long term. For any investments in shares traded on the KLSE, (with no exception to PBB Shares), the market price may rise above or drop below the Group's current average cost of total investments.

6. CONCLUSION AND RECOMMENDATION

After taking into account all the factors included in our evaluation, we are of the opinion that the Proposed Acquisitions and Disposals are fair and reasonable so far as shareholders of the Company are concerned and are not to the detriment of the minority shareholders.

Yours faithfully

ARTHUR ANDERSEN CORPORATE ADVISORY SDN BHD

Abraham Verghese
Director

Wong Kang Hwee
Director