

# Notes to the Financial Statements

## 1. GENERAL INFORMATION

The principal activity of the Company is the underwriting of life insurance and all classes of general insurance business.

During the year, the Company commenced underwriting investment-linked business upon receiving the approval from Bank Negara Malaysia on 21 December 2003.

Other than as stated above, there has been no significant change in the nature of this activity during the financial year.

The total number of employees of the Company as of 31 March 2004 was 793 (2003: 748).

The registered office and principal place of business is located at 9th Floor, Bangunan AMDB, No. 1, Jalan Lumut, 50400 Kuala Lumpur.

## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company have been approved by the Board of Directors for issuance on 28 May 2004.

The financial statements of the Company have been prepared in accordance with the provisions of the Companies Act, 1965, the applicable approved accounting standards of the Malaysian Accounting Standards Board (MASB), the Insurance Act, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia in all material respects.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The financial statements of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below.

### Property, Plant and Equipment

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

Gain or loss arising from disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and is recognised in the income statement/revenue accounts.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised whenever the carrying amount of an item of property, plant and equipment exceeds its recoverable amount. The impairment loss is charged to the income statement/revenue accounts.

Property, plant and equipment is depreciated on the straight-line method to their residual amount at the following annual rates based on the estimated useful lives of the various assets:

Freehold building	2%
Motor vehicles	20%
Office equipment and computer	15% - 33 1/3%
Furniture, fittings and renovation	10% - 20%

Computer equipment under installation is not depreciated.

# Notes to the Financial Statements

## **Subsidiary Company**

A subsidiary company is a company in which the Company has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiary company is stated at cost. Allowance is made when the directors consider that there is a permanent impairment in the value of the investment.

## **Investments**

### ***Non investment - linked business***

Malaysian Government Securities and other approved investments as specified by Bank Negara Malaysia are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated from the date of purchase to date of maturity on a straight-line basis. The amortisation of premium and accretion of discounts are recognised in the income statement/revenue accounts.

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

Unquoted investments are stated at cost less allowance for diminution in value, if any.

Allowance is made when the directors consider that there is a permanent impairment in the value of the investments.

### ***Investment-linked business***

Investments of investment-linked fund are stated at the closing market prices as at balance sheet date. Any increase or decrease in value of these investments is taken into the investment-linked business revenue account.

## **Investment Properties**

Investment properties are stated at cost and include related and incidental expenditure incurred. Investment properties are not depreciated.

## **Receivables**

Known bad receivables are written off and specific allowances are made for any premiums including agents balances or reinsurance balances which remain outstanding for more than six months from the date on which they become receivable and for all receivables which are considered doubtful.

## **Interest Income Recognition**

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

Other interests are recognised on a time apportionment basis that takes into account the effective yield of the assets.

## **Rental Income**

Rental income is recognised on an accrual basis by reference to the agreement entered except where default in payment of rent has already occurred and rent due remains outstanding for more than six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.



# Notes to the Financial Statements

## **Dividend Income**

Dividend income represents gross dividends from quoted and unquoted investments and is recognised when the right to receive payment is established.

## **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, reinsurance, commission, unearned premiums and claims incurred.

### **(a) Premium Income**

Premium income is recognised in a financial period in respect of risks assumed during the particular financial period. Inward treaty reinsurance premium are recognised on the basis of periodic advices received from ceding insurers.

### **(b) Inward Treaty Business**

Underwriting results relating to reinsurance inward treaty transactions, regardless of the underwriting years to which they pertain, are included in current operations to the extent that such transactions are reported by the brokers and reinsurers in their statement of accounts received as at end of the financial year. In general, transactions in the brokers' and reinsurers' statement of accounts are reported under a different basis of accounting which ordinarily results in a time lag in the recognition of transactions in the books of the Company. In the opinion of the directors, the basis adopted by the Company in recording inward treaty transactions is appropriate in view of the substantial delay inherent in the reinsurance business in the notification of premium and claims by the reinsurers and brokers.

### **(c) Unearned Premium Reserves**

The Unearned Premium Reserves (UPR) represents the portion of net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period. In determining the UPR at balance sheet date, the method that most accurately reflects the actual liability is used less commissions and agency-related expenses not exceeding permitted deduction in compliance with the method as prescribed by Bank Negara Malaysia in the Insurance Regulations 1996. UPR is computed at 25% of net premium method for marine and aviation cargo and transit business and 1/24th method for all other classes of general Malaysian business.

### **(d) Deferred Acquisition Costs**

The UPR at balance sheet date is reduced by the corresponding deferred acquisition costs based on the method prescribed by Bank Negara Malaysia. Acquisition costs 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 reinsurers in the course of ceding premiums to reinsurers. The acquisition costs are deferred and properly allocated to the periods in which they give rise to income.

### **(e) Provision for Claims**

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the cost of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at balance sheet date using the case - basis method.

Provision is also made for the cost of claims together with related expenses incurred but not reported (IBNR) at balance sheet date, using a mathematical method of estimation.

# Notes to the Financial Statements

## Life Insurance Underwriting Results

The surplus transferable from the Life Insurance Fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders.

### (a) Premium Income

Premium is recognised as soon as the amount of the premium can be reliably measured.

First premium income is recognised from inception date and subsequent premium income is recognised when it is due. Premium outstanding at balance sheet date is recognised as income for the year, provided it is still within the grace period allowed for payment.

### b) Commission and Agency Expenses

Commission and agency expenses, which are costs directly incurred in securing premium on insurance policies net of income derived from reinsurers in the course of the ceding of premium to reinsurers, are charged to the revenue account in the period in which they are incurred.

### (c) Provision for Claims

Claims and settlement costs that are incurred during the financial period are recognised when a claimable event occurs and/or the insurer is notified.

Claims and provisions for claims arising on life insurance policies, including settlement costs, are accounted for using the case-basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

- (i) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- (ii) death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

## Income Tax

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

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

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

Prior to the adoption of MASB 25 Income Taxes, the tax effects of transactions were generally recognised, using the 'liability' method, in the year such transactions were entered into the determination of net income, regardless of when they were recognised for tax purposes. However, where temporary differences result in deferred tax assets, the tax effects were generally recognised only when the realisation was reasonably assured.

There is, however, no significant effect on the financial statements of the Company for the current and previous financial years arising from the accounting change above.



# Notes to the Financial Statements

## Foreign Currency Transactions

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates prevailing at the transaction dates or, where settlement of assets and liabilities had not yet taken place at the end of the financial year, at the approximate exchange rates prevailing at the balance sheet date. All gains or losses on foreign exchange are taken up in the income statement/revenue accounts.

## Employee Benefits

- (1) Short-term benefits  
Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.
- (2) Defined contribution plan  
As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the income statement as incurred. Once the contribution has been paid, the Company has no further payment obligations.

## Assets Acquired under Finance Lease Agreements

Assets acquired under finance lease agreements are included in property, plant and equipment and the capital element of the lease commitments is shown as finance lease payables. The capital element of the lease rental is applied to reduce the outstanding obligations and the interest element is charged to the income statement/revenue accounts so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period. Assets acquired under finance lease are depreciated over the useful lives of the equivalent owned assets.

## Cash Flow Statement

The Company adopts the indirect method in the preparation of the cash flow statement.

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

# Notes to the Financial Statements

## 4. PROPERTY, PLANT AND EQUIPMENT

### General business and shareholders' fund

2004	Freehold building RM'000	Motor vehicles RM'000	Office equipment and computer RM'000	Furniture, fittings and renovation RM'000	Computer equipment under installation RM'000	Total RM'000
<b>Cost</b>						
At beginning of year	9,794	1,307	16,798	4,159	447	32,505
Additions	-	4	2,622	1,045	506	4,177
Disposals	-	(185)	-	(2)	-	(187)
Write off	-	-	(6)	(29)	-	(35)
Reclassification	-	-	447	-	(447)	-
At end of year	9,794	1,126	19,861	5,173	506	36,460
<b>Accumulated depreciation</b>						
At beginning of year	1,664	646	13,634	2,778	-	18,722
Charge for the year	196	186	2,423	506	-	3,311
Disposals	-	(78)	-	(2)	-	(80)
Write off	-	-	(6)	(29)	-	(35)
At end of year	1,860	754	16,051	3,253	-	21,918
<b>Net book value</b>						
At beginning of year	8,130	661	3,164	1,381	447	13,783
At end of year	7,934	372	3,810	1,920	506	14,542
Depreciation charge for 2003	194	170	2,272	414	-	3,050

Under general business and shareholders' fund, the cost and net book value of the office equipment and computer acquired under finance lease agreement amounted to RM1,326,000 (2003: RM1,326,000) and RM1 (2003: RM221,000) respectively.



# Notes to the Financial Statements

## Life fund

2004	Motor vehicles RM'000	Office equipment and computer RM'000	Furniture, fittings and renovation RM'000	Total RM'000
<b>Cost</b>				
At beginning of year	425	10,176	4,737	15,338
Additions	-	654	855	1,509
Disposals	-	(25)	(3)	(28)
At end of year	425	10,805	5,589	16,819
<b>Accumulated depreciation</b>				
At beginning of year	180	8,127	3,923	12,230
Charge for the year	85	1,074	326	1,485
Disposals	-	(24)	(3)	(27)
At end of year	265	9,177	4,246	13,688
<b>Net book value</b>				
At beginning of year	245	2,049	814	3,108
At end of year	160	1,628	1,343	3,131
Depreciation charge for 2003	85	1,088	330	1,503

Included in property, plant and equipment of the Company are fully depreciated assets which are still in use, costing approximately RM23,209,000 (2003: RM20,521,000).

## 5. UNCONSOLIDATED SUBSIDIARY COMPANY

### General business and shareholders' fund

	2004 RM'000	2003 RM'000
Unquoted shares, at cost	6,000	6,000

The subsidiary company is:

	Place of incorporation	Paid-up capital RM'000	Effective equity interest		Principal activity
			2004 %	2003 %	
Arab-Malaysian Services Bhd	Malaysia	6,000	100	100	Dormant

The financial statements of the subsidiary company was not consolidated as the amounts involved are insignificant but the financial statements are annexed as required by the Ninth Schedule of the provisions of the Companies Act, 1965.

The amount owing to a subsidiary company arose mainly from advances which are unsecured, interest free and have no fixed terms of repayment.

# Notes to the Financial Statements

## 6. INVESTMENTS

### General business and shareholders' fund

	2004		2003	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Malaysian Government Securities	28,069		14,710	
Amortisation of premiums net of accretion of discounts	(381)		(13)	
	27,688	26,952	14,697	14,936
Government Investment Issues	8,671		-	
Accretion of discounts	219		-	
	8,890	8,518	-	-
Malaysian Government Papers	-		9,984	
Amortisation of premiums net of accretion of discounts	-		1	
	-	-	9,985	10,000
Cagamas bonds	25,005		19,030	
Amortisation of premiums net of accretion of discounts	(2)		(12)	
	25,003	24,379	19,018	19,013
Shares of corporations quoted in Malaysia	39,301		55,020	
Allowance for diminution in value	(17)		(6,973)	
	39,284	41,476	48,047	48,047
Other investments	21,185		11,760	
Allowance for diminution in value	(387)		(735)	
	20,798	22,153	11,025	11,092
Unquoted shares of corporations	74		74	
Allowance for diminution in value	(74)		(74)	
	-		-	
Quoted bonds of corporation	4,333		4,333	
Accretion of discounts	494		310	
	4,827	4,938	4,643	4,750
Unquoted bonds of corporations	172,068		98,122	
Accretion of discounts net of amortisation of premiums	1,233		1,030	
	173,301		99,152	
Investment-linked fund (seed money)	4,000		-	
Fixed and call deposits with:				
Licensed banks	28,726		38,552	
Licensed finance companies	2,158		2,080	
Other corporations	57,504		57,456	
	88,388		98,088	
<b>Total investments</b>	<b>392,179</b>		<b>304,655</b>	
Investments maturing after 12 months:				
Malaysian Government Securities	27,668		4,696	
Government Investment Issues	8,890		-	
Cagamas bonds	25,003		15,011	
Quoted bonds of corporations	-		4,643	
Unquoted bonds of corporations	169,924		99,152	
Fixed and call deposits	22,004		32,198	

Included in fixed and call deposits are RM29,578,000 (2003: RM12,338,000) placed with other related companies under prevailing commercial terms.





# Notes to the Financial Statements

Life fund	2004		2003	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investment properties:				
Freehold land and building	17,622		10,353	
Malaysian Government Securities	43,132		40,384	
Amortisation of premiums net of accretion of discounts	(663)		(826)	
	42,469	40,156	39,558	40,785
Cagamas bonds	5,000		11,028	
Amortisation of premiums net of accretion of discounts	-		(17)	
	5,000	4,825	11,011	4,018
Shares of corporations quoted in Malaysia	82,130		86,864	
Allowance for diminution in value	-		(8,136)	
	82,130	91,939	78,728	78,728
Other investments	18,043		13,733	
Allowance for diminution in value	(99)		(426)	
	17,944	19,253	13,307	13,374
Unquoted shares of corporations	2,147		2,147	
Allowance for diminution in value	(21)		(20)	
	2,126		2,127	
Unquoted bonds of corporations	231,799		139,880	
Accretion of discounts net of amortisation of premiums	1,459		712	
	233,258		140,592	
Fixed and call deposits with:				
Licensed banks	27,970		27,414	
Licensed finance companies	101,263		101,223	
Other corporations	108,713		33,021	
	237,946		161,658	
<b>Total investments</b>	<b>638,495</b>		<b>457,334</b>	
Investments maturing after 12 months:				
Malaysian Government Securities	41,968		16,882	
Cagamas bonds	5,000		5,000	
Unquoted bonds of corporations	231,004		136,565	
Fixed and call deposits	108,267		108,311	

Included in fixed and call deposits are RM144,183,000 (2003: RM100,797,000) placed with other related companies under prevailing commercial terms.

# Notes to the Financial Statements

## Life – Investment-linked business

	2004 Cost/Market value RM'000	2003 Cost/Market value RM'000
Shares of corporations quoted in Malaysia		
At cost	2,505	-
Unrealised gain	14	-
At market value	2,519	-
Unquoted bonds of corporations	1,198	-
Accretion of discounts	4	-
Fixed and call deposits	1,202 740	-
Total investments by Investment-linked business	4,461	-
Investment maturing after 12 months: Unquoted bonds of corporations	1,202	-

## 7. LOANS

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Automatic premium loans	-	-	33,729	31,244
Policy loans	-	-	18,287	16,257
Mortgage loans	-	-	8,638	8,726
Allowance for doubtful receivables	-	-	(411)	(411)
	-	-	8,227	8,315
Other secured loans	859	539	612	308
Allowance for doubtful loans	(22)	(22)	(93)	(79)
	837	517	519	229
	837	517	60,762	56,045
Receivable within 12 months	207	175	1,354	1,162
Receivable after 12 months	630	342	59,408	54,883
	837	517	60,762	56,045

# Notes to the Financial Statements

## 8. RECEIVABLES

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Trade receivables</b>				
Outstanding premium including agents/brokers and co-insurers balances	36,372	30,734	8,133	6,106
Allowance for doubtful receivables	(7,286)	(7,350)	(691)	(605)
	29,086	23,384	7,442	5,501
Amount owing by reinsurers/cedants	5,553	7,918	4,565	4,922
Allowance for doubtful receivables	(4,057)	(6,398)	(852)	(851)
	1,496	1,520	3,713	4,071
Amount owing by other related companies	32	176	982	20
	30,614	25,080	12,137	9,592
<b>Other receivables</b>				
Other receivables, deposits and prepayments	7,539	5,510	3,363	3,593
Allowance for doubtful receivables	(450)	(450)	-	-
	7,089	5,060	3,363	3,593
Tax recoverable	1,915	2,945	-	-
Malaysian Institute of Insurance ("MII") bonds	200	200	-	-
Income due and accrued	3,199	2,118	4,578	2,639
	12,403	10,323	7,941	6,232
	43,017	35,403	20,078	15,824
Amount due from life fund	46,560	36,306		
	89,577	71,709		
Receivables after 12 months	9,401	11,358	1,887	1,773

In the composite balance sheet on page 12, the amount due from life fund of RM46,560,000 (2003: RM36,306,000) has been offset against the amount due to shareholders' fund in the life fund balance sheet on page 16.

As of 31 March 2004, the Company did not receive statements of accounts from certain co-insurers, reinsurers and brokers, hence, no reconciliation can be performed on these balances. Where statements of accounts were received, the unreconciled differences did not exceed 2.0% of the respective categories of assets on the gross balances outstanding.

## 9. PROVISION FOR OUTSTANDING CLAIMS

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Provision for outstanding claims	266,859	207,313	20,624	17,418
Recoverable from reinsurers	(96,654)	(74,046)	(1,863)	(1,693)
Net outstanding claims	170,205	133,267	18,761	15,725

# Notes to the Financial Statements

## 10. PAYABLES

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Trade payables</b>				
Amount owing to agents/brokers, co-insurers and insureds	16,211	11,407	-	-
Amount owing to reinsurers/cedants	16,441	14,974	4,967	2,936
Amount owing to other related companies	-	171	838	359
Unit liability to shareholders (Note 22)	-	-	4,018	-
	32,652	26,552	9,823	3,295
<b>Other payables</b>				
Finance lease payables	421	686	-	-
Other payables and accrued expenses	12,368	10,662	30,959	20,785
	12,789	11,348	30,959	20,785
	45,441	37,900	40,782	24,080

As of 31 March 2004, the Company did not receive statements of accounts from certain co-insurers, reinsurers and brokers, hence, no reconciliation can be performed on these balances. Where statements of accounts were received, the unreconciled differences did not exceed 2.0% of the respective categories of liabilities on the gross balances outstanding.

The finance lease payables of general business comprise the following:

	General business and shareholders' fund		Present value of minimum lease payments	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Amounts payable under finance lease:				
Within one year	278	278	265	265
In the second to fifth years inclusive	163	441	156	421
	441	719	421	686
Less: future finance charges	(20)	(33)	-	-
Present value of lease payables	421	686	421	686
Less: Amount due within 12 months			(265)	(265)
Non-current portion			156	421
The non-current portion is repayable as follows:				
			2004 RM'000	2003 RM'000
Financial year ending 31 March				
2005			-	265
2006			156	156
			156	421

The effective borrowing rate was 1.0% (2003: 1.0%) per annum.



# Notes to the Financial Statements

## 11. SUBORDINATED TERM LOAN

	2004 RM'000	2003 RM'000
<b>General business and shareholders' fund</b>		
Subordinated term loan	30,000	30,000

In 1998, a subordinated term loan of RM80.0 million was obtained from a major shareholder of the Company, AmMerchant Bank Berhad (AMMB), to supplement its capital fund.

The term of the loan facility is for a period of five (5) years commencing from the date of first drawdown in June 1998. The rate of interest payable is 1.0% plus AMMB's cost of funds and the repayment of the principal amount will be in one bullet payment at the end of the period. The interest has been waived with effect from 1 July 2000 as instructed by Bank Negara Malaysia.

The shareholders of the Company had undertaken to subscribe to their respective entitlement under a rights issue of shares to convert or otherwise replace the loan with the share capital. The exercise for the rights issue of shares to increase the paid-up capital of the Company to RM100.0 million was completed on 5 November 2001.

Accordingly, RM50.0 million of the above loan was repaid by the Company in 2002. Bank Negara Malaysia had agreed for the Company to maintain RM30.0 million as subordinated term loan pursuant to the increase in the paid-up capital. The subordinated term loan cannot be repaid without the prior approval of Bank Negara Malaysia.

## 12. DEFERRED TAX LIABILITIES

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
At beginning of year	-	(600)	-	(144)
Transfer from income statement/ revenue accounts (Note 21)	(877)	600	(145)	144
At end of year	(877)	-	(145)	-

The deferred tax liability in 2004 recognised in the financial statements was in respect of the following:

	Deferred Tax Asset /(Liability)	
	General business and shareholders' fund RM'000	Life fund RM'000
Tax effects of temporary differences in respect of:		
Excess of tax capital allowances claimed over book depreciation of property, plant and equipment	(842)	(95)
Allowance for diminution in value of investments	134	10
Others	(169)	(60)
	(877)	(145)

As mentioned in Note 3, the tax effects of temporary differences which could give rise to net deferred tax assets are recognised generally on actual realisation. As of 31 March 2003, the Company has net deferred tax assets arising from the following temporary differences which are not recognised in the financial statements:

# Notes to the Financial Statements

	Deferred Tax Asset /(Liability)	
	General business and shareholders' fund RM'000	Life fund RM'000
Tax effects of temporary differences in respect of:		
Excess of tax capital allowances claimed over book depreciation of property, plant and equipment	(780)	(70)
Allowance for diminution in value of investments	2,179	687
Others	(250)	10
	<u>1,149</u>	<u>627</u>

The comparative figures have been restated to reflect the actual capital allowances available to the Company in prior year.

## 13. UNEARNED PREMIUM RESERVES

	Marine, aviation				Total RM'000
	Fire RM'000	Motor RM'000	and transit RM'000	Miscellaneous RM'000	
<b>2004</b>					
At beginning of year	6,753	68,117	811	10,276	85,957
Increase/(Decrease) in unearned premium reserves	(85)	44,640	18	3,337	47,910
At end of year	<u>6,668</u>	<u>112,757</u>	<u>829</u>	<u>13,613</u>	<u>133,867</u>
<b>2003</b>					
At beginning of year	5,994	42,219	835	8,392	57,440
Increase/(Decrease) in unearned premium reserves	759	25,898	(24)	1,884	28,517
At end of year	<u>6,753</u>	<u>68,117</u>	<u>811</u>	<u>10,276</u>	<u>85,957</u>



# Notes to the Financial Statements

## 14. LIFE POLICYHOLDERS' FUND

Based on the actuarial valuation of the fund made up to 31 March 2004, the actuary was satisfied that the assets available in the life fund are sufficient to meet its long term liabilities to policyholders.

	2004 RM'000	2003 RM'000
<b>Actuarial liabilities:</b>		
At beginning of year	423,885	316,321
Add: Increase in policy reserves	152,170	99,234
Bonus allocated to participating policyholders	9,317	8,361
Add: Decrease/(Increase) in financial reinsurance	1,322	(31)
	162,809	107,564
At end of year	586,694	423,885
<b>Unallocated surplus:</b>		
At beginning of year	39,231	55,369
Add: Surplus/(Deficit) arising during the year	11,634	(9,858)
Add: Increase/(Decrease) in financial reinsurance	(1,322)	31
Add: Transfer from shareholders' fund	5,000	2,050
Less: Bonus allocated to policyholders	(9,317)	(8,361)
- From normal surplus		
	5,995	(16,138)
At end of year	45,226	39,231
<b>Life policyholders' fund at end of year:</b>		
Actuarial liabilities	586,694	423,885
Unallocated surplus	45,226	39,231
	631,920	463,116

Included in the unallocated surplus at end of the financial year is an amount of undistributable surplus of RM13,361,000 (2003: RM14,683,000) arising from the financial reinsurance arrangement entered in 2002.

## 15. SHARE CAPITAL

	2004 RM'000	2003 RM'000
<b>Authorised:</b>		
100,000,000 ordinary shares RM1.00 each	100,000	100,000
<b>Issued and fully paid:</b>		
100,000,000 ordinary shares of RM1.00 each	100,000	100,000

# Notes to the Financial Statements

## 16. DIVIDENDS

	2004 RM'000	2003 RM'000
Final dividend in respect of previous financial year - 5.0%, less tax (2003: Nil)	3,600	-
Interim dividend - 2.0%, less tax (2003: Nil)	1,440	-
	5,040	-

The directors propose a final dividend of 5.0%, less tax, amounting to RM3,600,000 in respect of the current financial year. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company and has not been included as a liability in the financial statements.

## 17. OPERATING REVENUE

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000	Total RM'000
<b>2004</b>				
Gross premiums	-	326,111	255,792	581,903
Investment income (Note 18)	325	14,747	31,315	46,387
	325	340,858	287,107	628,290
<b>2003</b>				
Gross premiums	-	217,794	185,615	403,409
Investment income (Note 18)	321	11,678	25,479	37,478
	321	229,472	211,094	440,887





# Notes to the Financial Statements

## 18. INVESTMENT INCOME

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
<b>2004</b>			
Interest from:			
Malaysian Government Securities	-	1,340	2,340
Cagamas bonds	-	737	219
Unquoted corporate bonds	272	7,657	11,816
Quoted corporate bonds	-	175	-
Mortgage loans	-	-	504
Policy loans	-	-	3,744
Other loans	-	44	74
Fixed and call deposits	33	3,060	9,558
Gross dividends from:			
Shares quoted in Malaysia	7	1,817	2,985
Other investments	-	240	310
Rental income	-	-	413
Accretion of discount, net of amortisation of premium	13	43	(145)
Investment management expenses	-	(366)	(503)
	325	14,747	31,315
<b>2003</b>			
Interest from:			
Malaysian Government Securities	-	1,901	3,316
Cagamas bonds	-	235	303
Unquoted corporate bonds	234	5,113	6,827
Quoted corporate bonds	-	175	-
Mortgage loans	-	-	553
Policy loans	-	-	3,222
Other loans	-	41	288
Fixed and call deposits	33	2,169	8,611
Gross dividends from:			
Shares quoted in Malaysia	13	1,197	1,776
Other investments	-	242	216
Rental income	-	-	245
Accretion of discount, net of amortisation of premium	41	909	501
Investment management expenses	-	(304)	(379)
	321	11,678	25,479

# Notes to the Financial Statements

## 19. OTHER OPERATING INCOME/(EXPENSES) – NET

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
<b>2004</b>			
Profit on disposal of property, plant and equipment	-	16	2
Realised gain/(loss) on foreign exchange	-	2	(20)
Profit/(Loss) on disposal of investments in:			
Malaysian Government Securities	-	14	22
Quoted shares	(200)	8,705	10,601
Unquoted corporate bonds	-	716	1,020
Other investments	-	70	87
Sundry income	-	274	-
Allowance for diminution in value of investment no longer required for:			
Quoted shares	193	6,763	8,136
Other investments	-	348	327
Allowance for diminution in value of investment in unquoted shares	-	-	(1)
Sundry expenditure	(1)	(39)	(138)
Net	(8)	16,869	20,036
<b>2003</b>			
Profit on disposal of property, plant and equipment	-	25	5
Realised gain on foreign exchange	-	5	-
Profit on disposal of investments in:			
Malaysian Government Securities	-	953	197
Malaysian Government Papers	-	42	-
Quoted shares	42	916	998
Unquoted shares	-	12	-
Unquoted corporate bonds	-	3,547	2,130
Sundry income	-	189	-
Write off of investment in quoted shares	-	(1,337)	(1,403)
Allowance for diminution in value of Investment in:			
Quoted shares	(18)	(6,764)	(8,136)
Other investments	-	(497)	(426)
Unquoted shares	-	-	(4)
Sundry expenditure	(17)	(27)	-
Net	7	(2,936)	(6,639)



# Notes to the Financial Statements

## 20. MANAGEMENT EXPENSES

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
<b>2004</b>			
<b>Staff costs</b>			
Wages, salaries and bonuses	-	15,235	11,187
Contributions to EPF	-	2,370	2,079
Other employee benefits	-	1,042	1,947
Directors' remuneration:			
Fees	-	162	108
Other emoluments	-	52	34
	-	18,861	15,355
Allowance for doubtful receivables no longer required	-	(8,719)	(229)
Allowance for doubtful receivables	-	6,309	330
Auditors' remuneration:			
Statutory audit	-	51	22
Other	-	16	7
Rental of office from third parties	-	506	846
Rental of office from other related companies	-	363	791
Depreciation of property, plant and equipment	-	3,311	1,485
IGSF levies	-	604	-
Other expenses	-	17,879	11,776
	-	20,320	15,028
	-	39,181	30,383
<b>2003</b>			
<b>Staff costs</b>			
Wages, salaries and bonuses	-	15,455	10,153
Contributions to EPF	-	2,375	1,410
Other employee benefits	-	938	1,331
Directors' remuneration:			
Fees	-	30	46
Other emoluments	-	27	-
	-	18,825	12,940
Allowance for doubtful receivables no longer required	-	(6,372)	(402)
Allowance for doubtful receivables	-	6,040	1,296
Bad receivables written off	-	807	112
Auditors' remuneration:			
Statutory audit	-	51	22
Other	-	16	7
Rental of office from third parties	-	657	1,299
Rental of office from other related companies	-	105	56
Depreciation of property, plant and equipment	-	3,050	1,503
IGSF levies	-	(451)	-
Other expenses	-	8,887	8,250
	-	12,790	12,143
	-	31,615	25,083

The estimated monetary value of benefit-in-kind received and receivable by the directors otherwise than in cash from the Company amounted to RM17,400 (2003: RM5,800).

# Notes to the Financial Statements

## 21. INCOME TAX EXPENSE

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Estimated tax payable:				
Current	8,424	5,771	3,224	2,155
Underprovision in prior years	-	-	-	218
Deferred tax (Note 12)	877	(600)	145	(144)
	9,301	5,171	3,369	2,229

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

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Profit/Surplus before tax	35,333	13,478	166,463	91,605
Tax at the applicable tax rate of 8.0% (2003: 8.0%)	-	-	13,317	7,328
Tax at the statutory tax rate of 28.0% (2003: 28.0%)	9,893	3,774	-	-
Expenses not deductible for tax purposes	557	552	9,812	7,565
Reversal of deferred tax assets previously not recognised	(1,149)	-	(627)	-
Deferred tax assets not recognised	-	1,149	-	627
Income not subject to tax	-	(304)	(19,133)	(13,509)
Underprovision in prior years	-	-	-	218
Tax expense for the year	9,301	5,171	3,369	2,229

The provision for taxation for life fund is in respect of investment income which is taxed at the reduced tax rate of 8.0%.

As of 31 March 2004, the Company has tax exempt account amounting to about RM9,364,000 arising from income earned in the basis period 1999 which is tax exempt under the Income Tax (Amendment) Act, 1999 to facilitate the transition of the income tax assessment from a preceding year basis to a current year basis. This amount is subject to agreement by Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the payment of net dividends out of its entire unappropriated profit as of 31 March 2004 without additional tax liability being incurred.

## 22. UNIT LIABILITY TO SHAREHOLDERS – INVESTMENT-LINKED FUNDS

	2004 RM'000	2003 RM'000
At beginning of year	-	-
Created during the year	4,000	-
Increase in value of units	18	-
At end of year	4,018	-

The above amount is included in payables (Note 10).



# Notes to the Financial Statements

## 23. EARNINGS PER ORDINARY SHARE

	2004 RM'000	2003 RM'000
<b>Basic</b>		
Net profit attributable to ordinary shareholders	26,032	8,307
Number of ordinary shares of RM1.00 each	100,000	100,000
<b>Basic earnings per share (sen)</b>	<b>26.0</b>	<b>8.3</b>

## 24. NET CLAIMS INCURRED

	Fire		Motor		Marine, aviation and transit		Miscellaneous		Total	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Gross claims paid less salvage	6,205	13,456	83,836	54,789	2,784	5,107	24,575	24,589	117,400	97,941
Reinsurance recoveries	(3,292)	(9,082)	(6,885)	(4,668)	(2,071)	(3,489)	(12,262)	(11,913)	(24,510)	(29,152)
Net claims paid	2,913	4,374	76,951	50,121	713	1,618	12,313	12,676	92,890	68,789
Net outstanding claims:										
At end of year	4,971	4,969	140,073	99,807	3,329	3,307	21,832	25,184	170,205	133,267
At beginning of year	(4,969)	(6,736)	(99,807)	(97,330)	(3,307)	(3,685)	(25,184)	(24,372)	(133,267)	(132,123)
	2	(1,767)	40,266	2,477	22	(378)	(3,352)	812	36,938	1,144
Net claims incurred	2,915	2,607	117,217	52,598	735	1,240	8,961	13,488	129,828	69,933

## 25. FINANCE COSTS

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Interest on finance lease	13	13	-	-

# Notes to the Financial Statements

## 26. CASH FLOW INFORMATION BY SEGMENT

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000	Total RM'000
<b>2004</b>				
<b>Cash flows from/(used in):</b>				
Operating activities	-	12,106	13,558	25,664
Investing activities	-	(4,054)	(8,775)	(12,829)
Financing activities	-	(265)	-	(265)
Net increase in cash and cash equivalents	-	7,787	4,783	12,570
Cash and cash equivalents:				
At beginning of year	-	2,996	7,796	10,792
At end of year	-	10,783	12,579	23,362
<b>2003</b>				
<b>Cash flows from/(used in):</b>				
Operating activities	(3)	(673)	6,623	5,947
Investing activities	-	(3,661)	(4,233)	(7,894)
Financing activities	-	(243)	-	(243)
Net increase/(decrease) in cash and cash equivalents	(3)	(4,577)	2,390	(2,190)
Cash and cash equivalents:				
At beginning of year	3	7,573	5,406	12,982
At end of year	-	2,996	7,796	10,792

# Notes to the Financial Statements

## 27. INVESTMENT – LINKED BUSINESS

### BALANCE SHEET AS OF 31 MARCH 2004

	Note	2004 RM'000	2003 RM'000
<b>ASSETS</b>			
Investments	6	4,461	-
Amount due from Life Fund		223	-
Amount due from brokers		59	-
Other receivables		11	-
Cash and bank balances		2	-
		4,756	-
<b>LIABILITIES</b>			
Other payables		28	-
<b>NET ASSET VALUE OF FUNDS</b>			
		4,728	-
<b>REPRESENTED BY:</b>			
<b>UNITHOLDERS' ACCOUNT</b>			
		4,728	-

### INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2004 RM'000	2003 RM'000
Net premium/net creation of units		4,812	-
Benefits paid and payable/net cancellation of units		(1)	-
		4,811	-
Commission and agency fees		(101)	-
Management expenses		(31)	-
Net investment income		19	-
Profit on disposal of investment in quoted shares		16	-
Unrealised capital gain		14	-
Surplus before tax		4,728	-
Income tax expense		-	-
Surplus after tax		4,728	-
Unitholders' account at beginning of year		-	-
Unitholders' account at end of year		4,728	-

Included in net investment income are the following:

	2004 RM'000	2003 RM'000
Interest from:		
Unquoted corporate bonds	5	-
Fixed and call deposits	9	-
Gross dividends from:		
Shares quoted in Malaysia	2	-
Others	3	-
	19	-

# Notes to the Financial Statements

## 28. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The related parties and their relationship with the Company as of 31 March 2004 are as follows:

<b>Name</b>	<b>Relationship</b>
AMMB Holdings Berhad	Ultimate holding company
AmMerchant Bank Berhad	Other related company
AMFB Holdings Berhad	Other related company
AmBank Berhad	Other related company
AmInvestment Management Sdn Bhd	Other related company
AmSecurities Sdn Bhd	Other related company
Arab-Malaysian Credit Berhad	Other related company
AmTrustee Berhad	Other related company
AmInvestment Services Berhad	Other related company
Arab-Malaysian Corporation Berhad	A corporate shareholder of ultimate holding company
Arab-Malaysian Development Berhad	Common directorship
Syarikat Kompleks Damai Sdn Bhd	Company in which a director of the ultimate holding company has a financial interest
Harpers Travel (M) Sdn Bhd	Company in which a director of the ultimate holding company has a financial interest
Computer Systems Advisers (M) Berhad	Company in which a director of the ultimate holding company has a financial interest
AMDB Property Management Company Sdn Bhd	Company in which a director of the ultimate holding company has a financial interest
Paragon Premiums Sdn Bhd	Company in which a director of the ultimate holding company has a financial interest
Medan Delima Sdn Bhd	Company in which a director of the ultimate holding company has a financial interest

In the normal course of business, the Company undertakes various transactions with subsidiary and associated companies of its ultimate holding company, AMMB Holdings Berhad and other companies deemed related parties by virtue of common director's shareholdings and corporate shareholder of its ultimate holding company. The Directors are of the opinion that the Company sold insurance policies to the related companies and related parties on terms and conditions no more favourable than those available on similar transactions to its other employees or customers, and other related party transactions were also carried out on terms and conditions no more favourable than those available on similar transactions to its unrelated parties unless otherwise stated.





# Notes to the Financial Statements

The related parties balances as of balance sheet date are set out below:

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Included in receivables (Note 8):</b>				
Outstanding premium including agents/ brokers and co-insurers balances				
AMFB Holdings Berhad	1,301	1,107	-	-
AmBank Berhad	691	470	-	-
AmMerchant Bank Berhad	243	174	-	-
	2,235	1,751	-	-
<b>Included in amount owing by other related companies (Note 8):</b>				
AmSecurities Sdn Bhd	18	18	6	3
AmMerchant Bank Berhad	9	-	-	-
AMFB Holdings Berhad	4	43	970	-
Arab-Malaysian Credit Berhad	1	1	6	-
AmBank Berhad	-	114	-	17
	32	176	982	20
<b>Included in payables (Note 10):</b>				
Amount owing to agents/brokers, co-insurers and insureds				
AMFB Holdings Berhad	2,460	1,619	-	-
Arab-Malaysian Credit Berhad	5	5	-	-
AmMerchant Bank Berhad	1	1	-	-
Arab-Malaysian Development Berhad	-	-	-	12
	2,466	1,625	-	12
<b>Included in amount owing to other related companies (Note 10):</b>				
AmMerchant Bank Berhad	-	171	262	275
AmBank Berhad	-	-	556	-
Arab-Malaysian Development Berhad	-	-	15	-
Arab-Malaysian Corporation Berhad	-	-	5	7
AMFB Holdings Berhad	-	-	-	66
AMMB Holdings Berhad	-	-	-	10
Arab-Malaysian Credit Berhad	-	-	-	1
	-	171	838	359

# Notes to the Financial Statements

The significant transactions of the Company with related parties during the financial year are as follows:

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Interest income on deposits placement receivable from:</b>				
AmMerchant Bank Berhad	635	393	509	8
AMFB Holdings Berhad	11	169	7,060	7,017
AmBank Berhad	3	446	-	32
	649	1,008	7,569	7,057
<b>Rental income receivable from:</b>				
AMFB Holdings Berhad	-	-	62	-
<b>Commission expenses payable to:</b>				
AMFB Holdings Berhad	11,573	9,103	5,323	3,048
AmBank Berhad	501	348	1,298	835
AmMerchant Bank Berhad	67	36	27	21
Arab-Malaysian Development Berhad	-	-	17	13
Arab-Malaysian Corporation Berhad	-	-	9	19
AmSecurities Sdn Bhd	-	-	7	7
	12,141	9,487	6,681	3,943
<b>Gross premium income earned from:</b>				
AMFB Holdings Berhad	2,547	1,626	184	100
AmBank Berhad	1,431	978	157	185
AmMerchant Bank Berhad	446	333	272	210
AmSecurities Sdn Bhd	207	186	76	71
Arab-Malaysian Corporation Berhad	-	26	91	185
Arab-Malaysian Development Berhad	-	-	171	129
AmInvestment Services Berhad	-	-	-	148
Arab-Malaysian Credit Berhad	-	-	-	2
	4,631	3,149	951	1,030
<b>General and administrative expenses payable to:</b>				
Paragon Premiums Sdn Bhd	1,580	-	-	-
Syarikat Kompleks Damai Sdn Bhd	1,361	-	173	-
Computer Systems Advisers (M) Berhad	758	-	404	-
Harpers Travel (M) Sdn Bhd	357	-	74	-
AmMerchant Bank Berhad	312	180	160	209
AMDB Property Management Company Sdn Bhd	40	-	-	-
AMFB Holdings Berhad	-	56	-	-
	4,408	236	811	209



# Notes to the Financial Statements

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Management fees payable to:</b>				
AmInvestment Management Sdn Bhd	239	191	362	253
AmTrustee Berhad	74	56	94	50
	313	247	456	303
<b>Rental expenses payable to:</b>				
Syarikat Kompleks Damai Sdn Bhd	270	-	692	-
AmMerchant Bank Berhad	40	40	30	-
Medan Delima Sdn Bhd	30	-	61	-
AmBank Berhad	14	41	-	48
AMFB Holding Berhad	9	-	8	8
AmSecurities Sdn Bhd	-	24	-	-
	363	105	791	56

## 29. CAPITAL COMMITMENTS

As of 31 March 2004, capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	General business and shareholders' fund		Life fund	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>Authorised but not contracted for:</b>				
Property, plant and equipment	-	357	486	-
Investment properties	-	-	34,530	6,515
	-	357	35,016	6,515
<b>Authorised and contracted but not provided for:</b>				
Property, plant and equipment	629	-	597	-
Investment properties	-	-	11,103	-
	629	-	11,700	-

# Notes to the Financial Statements

## 30. FINANCIAL INSTRUMENTS

### Financial risk management objectives and policies

The operations of the Company is subject to four major areas of risk which comprise underwriting risk, credit risk, interest rate risk and liquidity risk. The Company's risk management objective is to effectively link and manage risks with reward in order to maximise the Company's shareholders' value as well as to ensure the Company is able to sustain its performance.

The Company is guided by risk management policies and guidelines which set out their overall business strategies and their general risk management philosophy whose principal objective is to minimise the Company's exposure to risks and/or costs associated with the financing, investing and operating activities of the Company. The Company has established processes to monitor and control the risks on an ongoing basis.

The Company has to comply with the Insurance Act and Regulations in Malaysia, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policy rests with the Board of Directors (Board). The Board exercises oversight on investments to safeguard the interests of policyholders and shareholders.

The Board constituted the Investment Committee (IC), to comprise three Directors of the Board. The principal role of the IC is to provide oversight on the implementation of the investment policy as approved by the Board, review the investment policy on a regular basis so that it remains appropriate and consistent with product pricing and asset/liability management strategies, ensure that the risk management functions and internal control systems relating to investments are adequate and oversee assets allocation.

### Underwriting risk

Underwriting risk include the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioral patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected. The Company seeks to minimise underwriting risks with a balanced mix and spread of business between classes of business and by observing underwriting guidelines and limits, conservative estimation of the claims provisions, and high standards applied to the security of reinsurers.

### Credit risk

Credit risk represents the exposure to the risk that any of the Company's business counterparties to insurance, reinsurance and investment transactions fail to perform and meet their contractual obligations. In the case of premiums payment obligations by cedants or brokers, the Company has sound credit control policies in place to ensure that premiums are duly collected from the cedants and brokers. Credit evaluations are performed on all new customers, agents, brokers, reinsurers, financial institutions and other counterparties. Similarly on investment operations, the Company's investment portfolio manager adopts a very stringent set of quantitative and qualitative criteria in selecting issuers of financial instruments that the Company invests in.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Company are represented by the carrying amount of each financial asset.

### Interest rate risk

The Company's core insurance and investment activities are inherently exposed to interest rate risk which arises principally from differences in maturities of invested assets and long-term policyholders' liabilities. Hence, the Company's earnings can be potentially affected by changes in market interest rates in view of the impact such fluctuations have on interest income from cash and cash equivalents and other fixed income investments. In dealing with this risk, the Company adopts an approach of focusing on achieving a desired overall interest rate profile, which may change over time, based on management's longer term view of interest rates and economic conditions.

In respect of interest-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.



# Notes to the Financial Statements

	Effective interest rate %	Total RM'000	31 March 2004 Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
<b>Financial assets</b>					
<b>General and shareholders' fund</b>					
Malaysian Government Securities	5.95	27,688	-	22,639	5,049
Government Investment Issues	0.00	8,890	-	8,890	-
Cagamas bonds	3.22	25,003	-	25,003	-
Quoted bonds of corporation	5.28	4,827	4,827	-	-
Unquoted bonds of corporations	3.50	173,301	3,377	70,536	99,388
Fixed and call deposits	2.82	88,388	66,384	9,000	13,004
Other secured loans	4.00	837	207	630	-
<b>Life fund</b>					
Malaysian Government Securities	5.46	42,469	501	26,896	15,072
Cagamas bonds	3.12	5,000	-	5,000	-
Unquoted bonds of corporations	5.50	233,258	2,254	68,268	162,736
Fixed and call deposits	4.79	237,946	129,679	5,016	103,251
Loans:					
Automatic premium loans	8.00	33,729	-	33,729	-
Policy loans	8.00	18,287	510	2,349	15,428
Mortgage loans	4.00	8,227	712	3,453	4,062
Other secured loans	4.00	519	132	387	-
<b>Investment-linked business</b>					
Unquoted bonds of corporations	4.93	1,202	-	1,202	-
Fixed and call deposits	2.67	740	740	-	-

	Effective interest rate %	Total RM'000	31 March 2003 Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
<b>Financial assets</b>					
<b>General and shareholders' Fund</b>					
Malaysian Government Securities	7.49	14,697	10,001	587	4,109
Malaysian Government Papers	2.78	9,985	9,985	-	-
Cagamas bonds	3.48	19,018	4,007	15,011	-
Quoted bonds of corporation	3.50	4,643	-	4,643	-
Unquoted bonds of corporations	4.83	99,152	-	39,263	59,889
Fixed and call deposits	2.89	98,088	65,890	19,049	13,149
Other secured loans	3.42	517	175	342	-
<b>Life fund</b>					
Malaysian Government Securities	7.13	39,558	22,676	510	16,372
Cagamas bonds	4.05	11,011	6,011	5,000	-
Unquoted bonds of corporations	6.03	140,592	4,027	30,479	106,086
Fixed and call deposits	5.54	161,658	53,347	5,024	103,287
Loans:					
Automatic premium loans	8.00	31,244	-	31,244	-
Policy loans	8.00	16,257	416	3,151	12,690
Mortgage loans	4.00	8,315	661	2,841	4,813
Other secured loans	4.00	229	85	144	-

# Notes to the Financial Statements

## Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Company manages this risk by monitoring daily and monthly projected and actual cash inflows and outflows and by ensuring that a reasonable amount of financial assets are kept in liquid instruments at all times.

## Fair Value of Financial Instruments

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents best estimates of fair values of financial instruments at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a number of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the assumptions could materially affect these estimates and the corresponding fair values.

In addition, fair value information for non-financial assets and liabilities such as investments in subsidiary company and taxation are excluded, as they do not fall within the scope of Malaysian Accounting Standard Board (MASB) 24, which requires the fair value information to be disclosed.

The estimated fair values of the Company's financial instruments are as follows:

	31 March 2004			
	General business and shareholders' fund		Life fund	
	Carrying value RM'000	Estimated fair value RM'000	Carrying value RM'000	Estimated fair value RM'000
<b>Financial assets</b>				
Investments	392,179	393,103	620,873	629,054
Loans	837	837	60,762	69,267
Receivables	43,017	43,017	20,078	20,078
Cash and bank balances	10,783	10,783	12,577	12,577
Investment-linked business assets	-	-	4,756	4,756
	446,816	447,740	719,046	735,732
Non-Financial Assets	20,542	20,542	20,753	20,753
<b>Total Assets</b>	<b>467,358</b>	<b>468,282</b>	<b>739,799</b>	<b>756,485</b>
<b>Financial liabilities</b>				
Payables	45,441	45,441	40,782	40,782
Subordinated term loan	30,000	30,000	-	-
Investment-linked business liabilities	-	-	28	28
	75,441	75,441	40,810	40,810
Non-Financial Liabilities	312,514	312,514	67,069	67,069
<b>Total Liabilities</b>	<b>387,955</b>	<b>387,955</b>	<b>107,879</b>	<b>107,879</b>



# Notes to the Financial Statements

	31 March 2003			
	General business and shareholders' fund		Life fund	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>				
Investments	304,655	307,423	446,981	481,499
Loans	517	517	56,045	56,045
Receivables	35,403	35,403	13,882	13,882
Cash and bank balances	2,996	2,996	7,796	7,796
	343,571	346,339	524,704	559,222
Non-Financial Assets	19,783	19,783	15,403	15,403
Total Assets	363,354	366,122	540,107	574,625
<b>Financial liabilities</b>				
Payables	37,900	37,900	24,080	24,080
Subordinated term loan	30,000	30,000	-	-
	67,900	67,900	24,080	24,080
Non-Financial Liabilities	226,789	226,789	52,911	52,911
Total Liabilities	294,689	294,689	76,991	76,991

The following methods and assumptions were used to estimate the fair value of assets and liabilities as of 31 March 2004:

## (a) Investments

The estimated fair value is based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair value is estimated using discounted cash flow or net tangible assets techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted using prevailing market rates for similar instruments at the balance sheet date.

## (b) Loans

The fair values of loans receivable are determined by discounting the relevant cash flow using the prevailing interest rates for similar instruments at balance sheet date.

## (c) Receivables And Payables

The fair values of receivables and payables are estimated to approximate their carrying values because of the short-term nature of these financial instruments.

## (d) Cash and Bank Balances

The carrying values are a reasonable estimate of the fair values because of negligible credit risk and short-term in nature or repricing frequently.

No disclosure is made for amount owing to a subsidiary company as it is impractical to determine its fair value with sufficient reliability given this balance has no fixed terms of repayments.

# Statement by Directors

The directors of **AmAssurance Berhad** state that, in their opinion, the accompanying balance sheet and the related statements of income, insurance revenue accounts, cash flows and changes in equity are drawn up in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as of 31 March 2004 and of the results of the business and the cash flows of the Company for the year ended on that date.

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



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**DATO' AZLAN HASHIM**



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**MOHAMED AZMI MAHMOOD**

Kuala Lumpur,  
28 May 2004





# Statutory Declaration

By The Officer Primarily Responsible For The Financial Management Of The Company

I, **LIM HOCK AUN**, being the Officer primarily responsible for the financial management of **AmAssurance Berhad**, do solemnly and sincerely declare that the accompanying balance sheet and the related statements of income, insurance revenue accounts, cash flows and changes in equity are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



**LIM HOCK AUN**

Subscribed and solemnly declared by the abovenamed **LIM HOCK AUN** at **KUALA LUMPUR** this 28 day of May, 2004

Before me,



**COMMISSIONER FOR OATHS**



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