

Service 1<sup>st</sup>. *Our Promise.*<sup>™</sup>

# AmAssurance Berhad

## ANNUAL REPORT 2005

31 March 2005 Financial Statements

**AmAssurance Berhad** (15743-P)  
*Licensed Insurer. A member of the AmBank Group*

*Registered Office:*  
9th Floor, Bangunan AMDB  
No. 1, Jalan Lumut  
50400 Kuala Lumpur, Malaysia.  
Tel: 603-4047 8000  
Fax: 603-4043 8680

[www.amassurance.com.my](http://www.amassurance.com.my)



**AmAssurance**

## VISION

### THE TOP INSURER PREFERRED FOR SERVICE

- Customers will want to deal with us because of the convenience and simplicity we provide
- They have a choice of a wide range of channels to access our services
- They receive a comprehensive product offerings from the rest of the Group
- They are assured of first class after-sales service
- Our services will be perceived as value for money
- Our enthusiastic employees and congenial environment will make us the preferred employer in the industry
- Our agents will be among the most productive and motivated
- We will provide a sustainable rate of return to shareholders that is above industry average
- Our branding will be highly visible and stand for financial reliability

## MISSION

### TO PROVIDE INSURANCE SERVICE TO CUSTOMERS AS SIMPLY AND CONVENIENTLY AS POSSIBLE

Five guiding principles measure the appropriateness of our decisions (the P's):

- Philosophy – we value clear leadership, teamwork, responsibility, accountability, commitment, integrity and ethical behavior
- Products – we provide quality and innovative products that meet customer needs (product here can mean a combination of products and services)
- People – we believe our people should be well trained and perform to the highest standards
- Process – operations in all aspects should be oriented towards customer satisfaction, within the control parameters we set
- Profitability – we recognize that profitability is essential in sustaining our growth

 **CONTENTS 2005**

<b>2-14</b>	■	DIRECTORS' REPORT
<b>15</b>	■	STATEMENT BY DIRECTORS
<b>15</b>	■	STATUTORY DECLARATION
<b>16</b>	■	REPORT OF THE AUDITORS
<b>17</b>	■	BALANCE SHEET
<b>18</b>	■	STATEMENT OF CHANGES IN EQUITY
<b>19</b>	■	INCOME STATEMENT
<b>20</b>	■	GENERAL INSURANCE REVENUE ACCOUNT
<b>21</b>	■	LIFE FUND BALANCE SHEET
<b>22</b>	■	LIFE FUND REVENUE ACCOUNT
<b>23-24</b>	■	CASH FLOW STATEMENT
<b>25-66</b>	■	NOTES TO THE FINANCIAL STATEMENTS

## DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 31 March 2005.

### PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of life and investment-linked insurance and all classes of general insurance business.

The principal activity of the subsidiary is described in Note 4 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

### RESULTS

	<b>RM'000</b>
Net profit for the year	22,677

There were no material transfers to or from reserves or provisions during the financial year.

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

### DIVIDENDS

The amount of dividends paid by the Company since the end of the previous financial year were as follows:

	<b>RM'000</b>
Final dividend of 5% less tax, amounting to RM3,600,000 in respect of the financial year ended 31 March 2004 paid on 14 June 2004	3,600
Interim dividend of 5% less tax, amounting to RM3,600,000 in respect of the financial year ended 31 March 2005 paid on 26 October 2004	3,600
	<u>7,200</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 March 2005 of 10% less tax, on 100,000,000 ordinary shares amounting to a total dividend of RM7,200,000 (7.2 sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 March 2006.

## directors' report

### DIRECTORS

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

Tan Sri Dato' Azman Hashim (Chairman)	(Non-independent, non-executive director)
Dato' Azlan Hashim	(Non-independent, non-executive director)
Encik Mohamed Azmi Mahmood	(Non-independent, non-executive director)
Encik Mustafa Mohd Nor	(Non-independent, non-executive director)
Mr. Sim How Chuah	(Non-independent, non-executive director)
Mr. Leung Hoong Kuan	(Independent, non-executive director)
Mr. Kok Tuck Cheong	(Non-independent, non-executive director)
Mr. Wong Bin Chen (resigned on 30 November 2004)	(Independent, non-executive director)

In accordance with Article 84A of the Articles of Association, Dato' Azlan Hashim and Encik Mustafa Mohd Nor retire by rotation from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

### CORPORATE GOVERNANCE

The Company has generally complied with the prescriptive requirements of, and adopted management practices that are consistent with the principles prescribed under Bank Negara Malaysia's ("BNM") Guideline JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers.

#### Board Responsibilities

The Board of Directors ("the Board") explicitly assumes specific minimum responsibilities in relation to the affairs of the insurer which facilitate the effective discharge of the Board's stewardship responsibilities.

#### Board Activities

The Board currently comprises seven (7) directors with wide-ranging skills and experience. There is a balance in the Board represented by the presence of six (6) non-independent, non-executive directors and one (1) independent, non-executive director of the calibre, necessary skills and with diverse corporate experience to ensure strategies proposed by the management are fully discussed and examined, as well as take into account the long term interests of various stakeholders. During the year, the Board met twelve (12) times.

All directors review Board reports prior to the Board meetings. The reports are issued in sufficient time to enable the directors to obtain further explanations, where necessary, in order to be briefed properly before the meetings.

In addition, the Board decides on matters reserved specifically for its decision, including the approval of corporate plans and budgets, acquisitions and disposals of assets that are material to the Company, major investments, changes to the management and control structure of the company, including key policies, procedures and authority limits.

## directors' report

### CORPORATE GOVERNANCE (CONTD.)

#### Board Activities (Contd.)

The Board has also adopted a policy for induction and education programs for directors. The program is to provide essential and comprehensive information to a new director in order for him to be familiar with relevant insurance industry regulatory requirements and the company's nature of business. The directors may also request independent professional advice, at the Company's expense. The Company Secretary, to whom the directors have independent access, assists the Board and keeps it apprised of relevant laws and regulations.

#### Membership and Board Meetings For Financial Year Ended 31 March 2005

Members	Number of Meetings Attended (Attended/Held)
Tan Sri Dato' Azman Hashim (Chairman)	12/12
Dato' Azlan Hashim	10/12
Mr. Leung Hoong Kuan	12/12
Encik Mustafa Mohd Nor	12/12
Mr. Sim How Chuan	12/12
Encik Mohamed Azmi Mahmood	11/12
Mr. Kok Tuck Cheong	9/12
Mr. Wong Bin Chen (resigned on 30 November 2004)	7/8

#### Board Committees

The Board delegates certain responsibilities to Board Committees. The Committees which were set up to assist the Board in certain areas of deliberation are:

- 1) Nomination Committee
- 2) Remuneration Committee
- 3) Risk Management Committee
- 4) Audit & Examination Committee
- 5) Investment Committee

## directors' report

### CORPORATE GOVERNANCE (CONTD.)

#### Nomination Committee

The Committee comprises of one independent, non-executive director and five non-independent, non-executive directors of the Board with mixed skills, experience and competencies for the effectiveness of the committee.

The functions of the Committee are to:

- (a) recommend and assess the nominees for new appointments of directors, the various Board Committees' membership as well as the nominees for the Chief Executive Officer ("CEO") position including assessing the directors and CEO proposed for reappointment, before an application for approval is submitted to BNM.
- (b) establish minimum requirements for the Board and the CEO to perform their responsibilities effectively and review the overall composition of the Board in terms of appropriate size, structure, mix of skills and experience and other qualities and competencies, besides the balance between executive, non-executive and independent directors.
- (c) establish a mechanism for formal assessment of the effectiveness of the Board, the contribution of the Board's various Committees and the performance of the CEO.
- (d) review the composition of the Board and Committees of the Board during the financial year and ensure that the recommendations have been implemented by the Board during the financial year.

#### Membership and Meetings of the Nomination Committee For Financial Year Ended 31 March 2005

Members	Number of Meetings Attended (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	2/2
Tan Sri Dato' Azman Hashim	2/2
Encik Mustafa Mohd Nor	6/6
Mr. Sim How Chuah	6/6
Encik Mohamed Azmi Mahmood	5/5
Mr. Kok Tuck Cheong	2/3
Mr. Wong Bin Chen (resigned on 30 November 2004)	2/2

## directors' report

### CORPORATE GOVERNANCE (CONTD.)

#### Remuneration Committee

The Committee comprises of one independent, non-executive director and three non-independent, non-executive directors.

The functions of the Committee are to:

- (a) determine and recommend to the Board the framework or broad policy for the remuneration of the directors, CEO, senior management and other members of the staff. The remuneration policy:
  - i) is documented and approved by the full Board and any changes thereto are subjected to the endorsement of the full Board;
  - ii) reflects the experience and level of responsibility borne by individual directors, the CEO and senior management;
  - iii) is sufficient to attract and retain directors, CEO and senior management of calibre needed to manage the Company successfully; and
  - iv) is balanced against the need to ensure that the funds of the company are not used to subsidise excessive remuneration packages.
- (b) recommend specific remuneration packages for directors, CEO and senior management. The remuneration packages:
  - i) are based on an objective consideration and approval by the full Board;
  - ii) take due consideration of the assessments of the Nomination Committee of the effectiveness and contribution of the directors and CEO;
  - iii) are not decided by the exercise of sole discretion of any individual or restricted group of individuals; and
  - iv) are competitive and consistent with the company's culture, objective and strategies;
- (c) ensure the remuneration packages for directors are linked to their levels of responsibilities undertaken and contributions to the effective functioning of the Board.

#### Membership and Meetings of the Remuneration Committee For Financial Year Ended 31 March 2005

Members	Number of Meetings Attended (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	1/1
Tan Sri Dato' Azman Hashim	1/1
Encik Mohamed Azmi Mahmood	3/3
Mr. Kok Tuck Cheong	2/2
Mr. Wong Bin Chen (resigned on 30 November 2004)	2/2



## directors' report

### CORPORATE GOVERNANCE (CONTD.)

#### Risk Management Committee

The Committee comprises of one independent, non-executive director and four non-independent, non-executive directors. The primary objective of the Risk Management Committee is to oversee senior management's activities in managing the key risk areas of the insurer and that the risk management process is in place and functioning effectively.

The functions of the Committee are:

- (a) reviewing and recommending of Risk Management strategies, policies and risk tolerance for the board's approval;
- (b) reviewing and assessing of the adequacy of Risk Management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- (c) ensuring that adequate infrastructure, resources and systems are in place for an effective Risk Management i.e. ensuring that the staff responsible for implementing Risk Management systems perform those duties independently of the insurer's risk taking activities; and
- (d) reviewing of the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

#### Membership and Meetings of the Risk Management Committee For Financial Year Ended 31 March 2005

Members	Number of Meetings Attended (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	6/6
Dato' Azlan Hashim	1/1
Encik Mustafa Mohd Nor	5/6
Mr. Sim How Chuah	4/6
Encik Mohamed Azmi Mahmood	5/6
Mr. Wong Bin Chen (resigned on 30 November 2004)	1/1

#### Audit and Examination Committee

The Board has appointed the Audit and Examination Committee ("AEC") to assist in discharging its duties of maintaining a sound system of internal control to safeguard the company's assets and shareholders' investments. The Committee comprises of one independent, non-executive director and four non-independent, non-executive directors.

## directors' report

### CORPORATE GOVERNANCE (CONTD.)

#### Audit and Examination Committee (contd.)

The primary objective of the AEC is to provide assistance to and review and report to the Board in relation to:

- i) fulfilling the statutory and fiduciary responsibilities of the Company; and
- ii) monitoring of the accounting and financial reporting practices of the Company,

The AEC also determines that the Company has adequate established policies, procedures and guidelines as well as operating and internal controls, and that they are being complied with and are operating effectively in promoting efficiency and proper conduct and protection of the assets of the Company.

#### Membership and Meetings of the Audit and Examination Committee For Financial Year Ended 31 March 2005

Members	Number of Meetings Attended (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	8/8
Dato' Azlan Hashim	7/8
Encik Mustafa Mohd Nor	8/8
Mr. Sim How Chuah	4/8
Encik Mohamed Azmi Mahmood	6/8
Mr. Wong Bin Chen (resigned on 30 November 2004)	4/4

#### Investment Committee

The Committee comprises of four non-independent, non-executive directors. The primary objective of the Investment Committee is to oversee Investment Management's activities in managing the investment funds of the insurer and that the risk management and compliance process is effective and affective.

The functions of the Committee are:

- (a) reviewing of the investment performances of the investment portfolio by the internal investment department and external fund managers
- (b) reviewing and recommending of investment strategies within approved risk levels for the committee's approval.
- (c) presenting the investment outlook and strategies with regards to the various asset classes of all funds under management.
- (d) reviewing of the portfolio's risk exposure and risk management activities.

## directors' report

### CORPORATE GOVERNANCE (CONTD.)

#### Investment Committee (contd.)

##### Membership and Meetings of the Investment Committee For Financial Year Ended 31 March 2005

Members	Number of Meetings Attended (Attended/Held)
Dato' Azlan Hashim (Chairman)	12/12
Tan Sri Dato' Azman Hashim	5/5
Encik Mustafa Mohd Nor	12/12
Encik Mohamed Azmi Mahmood	12/12
Mr. Wong Bin Chen (resigned on 30 November 2004)	7/7

#### DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 19 to the financial statements and the financial statements of its related corporations or the fixed salaries of full-time employees of related corporations) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

#### DIRECTORS' INTERESTS

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

	Number of ordinary shares of RM1.00 each				
	Balance as of 1.4.2004	Exercised Option	*Share Exchange	Balance as of Sold	31.3.2005
<b>AMMB Holdings Berhad (ultimate holding company)</b>					
Tan Sri Dato' Azman Hashim	-	-	675,490	-	675,490
Dato' Azlan Hashim	-	-	95,952	-	95,952
Encik Mohamed Azmi Mahmood	143,200	329,924	50,000	(323,100)	200,024
Mr. Sim How Chuah	-	6,787	-	-	6,787
Mr. Kok Tuck Cheong	20,000	-	-	(20,000)	-
Encik Mustafa Mohd Nor	-	146,200	-	(66,200)	80,000

\* Arising from the exchange of share on the basis of one (1) new AMMB Holdings Berhad ("AHB") share for every one (1) existing AMFB Holdings Berhad ("AMFB") share held by AMFB shareholders other than AHB.

## directors' report

### DIRECTORS' INTERESTS

	No. of Warrants 2003/2008			
	Balance as of 1.4.2004	Bought	Exercised/ Sold	Balance as of 31.3.2005
<b>AMMB Holdings Berhad (ultimate holding company)</b>				
Tan Sri Dato' Azman Hashim	245,793	-	(245,793)	-
Encik Mohamed Azmi Mahmood	16,083	-	-	16,083
Mr. Kok Tuck Cheong	11,547	-	(11,547)	-

	Option over ordinary shares of RM1.00 each				
	Balance as of 1.4.2004	Granted	Exercised	Expired	Balance as of 31.3.2005
<b>AMMB Holdings Berhad (ultimate holding company)</b>					
Encik Mustafa Mohd Nor	146,321	-	(146,200)	(121)	-
Mr. Sim How Chuah	6,787	-	(6,787)	-	-
Encik Mohamed Azmi Mahmood	329,924	-	(329,924)	-	-
Mr. Kok Tuck Cheong	65,984	-	-	(65,984)	-

The share options in the ultimate holding company, with an option period of five calendar years were granted pursuant to AMMB Holdings Berhad Employees' Share Option Scheme II ("Scheme") and the persons to whom the options are granted under the Scheme have no right to participate in any staff share option scheme of any other company in the Group.

	Number of ordinary shares of RM1.00 each				
	Balance as of 1.4.2004	Bought	*Share Exchange	Sold	Balance as of 31.3.2005
<b>AMFB Holdings Berhad (other related company)</b>					
Tan Sri Dato' Azman Hashim					
Held directly	211,505	-	(211,505)	-	-
Held through nominees	522,985	-	(463,985)	(59,000)	-
Dato' Azlan Hashim	95,952	-	(95,952)	-	-
Encik Mohamed Azmi Mahmood	50,000	-	(50,000)	-	-

\* Arising from the exchange of share on the basis of one (1) new AMMB Holdings Berhad ("AHB") share for every one (1) existing AMFB Holdings Berhad ("AMFB") share held by AMFB shareholders other than AHB.


**directors' report**
**DIRECTORS' INTERESTS (CONTD.)**

	No. of Renounceable Rights of RM1.00 each			
	Balance as of 1.4.2004	Rights	^Pink Form	Balance as of Bought 31.3.2005
<b>AmlInvestment Group Berhad (other related company)</b>				
Tan Sri Dato' Azman Hashim	-	118,954,848	-	- 118,954,848
Dato' Azlan Hashim	-	21,995	200,000	- 221,995
Encik Mohamed Azmi Mahmood	-	66,461	30,000	- 96,461
Mr. Kok Tuck Cheong	-	4,584	1,500,000	- 1,504,584

^ Arising from the restricted offer for sale by AHB to eligible employees pursuant to the listing of AmlInvestment Group Berhad on the Main Board of the Bursa Malaysia Securities Berhad.

**DEEMED INTERESTS**

	Number of ordinary shares of RM1.00 each		
	Name of company	Balance as of 1.4.2004	Balance as Bought Sold of 31.3.2005
<b>The Company</b>			
	ABH Holdings Sdn Bhd	34,062,000	- (14,062,000) 20,000,000

**AMMB Holdings Berhad  
(ultimate holding company)**

	Name of Company	Number of ordinary shares of RM1.00 each			Balance as of 31.3.2005
		Balance as of 1.4.2004	*Share Bought Exchange	Sold	
Tan Sri Dato' Azman Hashim	Arab-Malaysian Corporation Berhad	605,826,825	94,425,596	- (42,000,000)	658,252,421
	AMDB Equipment Trading Sdn Bhd Azman Hashim	198,000	- 241,047	-	439,047
	Holdings Sdn Bhd	5,713,905	-	- (4,800,000)	913,905
	Ginagini Sdn Bhd	12,184,809	-	- (12,184,809)	-
	Regal Genius Sdn Bhd	21,750,000	7,740,000	-	29,490,000

\* Arising from the exchange of share on the basis of one (1) new AMMB Holdings Berhad ("AHB") share for every one (1) existing AMFB Holdings Berhad ("AMFB") share held by AMFB shareholders other than AHB.

## directors' report

### DIRECTORS' INTERESTS (CONTD.)

#### DEEMED INTERESTS

#### AMMB Holdings Berhad (ultimate holding company)

	Name of Company	No. of Warrants 2003/2008			Balance as of 31.3.2005
		Balance as of 1.4.2004	Bought	Sold/ Exercised	
Tan Sri Dato' Azman Hashim	Arab-Malaysian Corporation Berhad	75,214,328	-	(69,260,231)	5,954,097
	AMDB Equipment Trading Sdn Bhd	22,682	-	-	22,682
	Azman Hashim Holdings Sdn Bhd	3,342,309	-	-	3,342,309
	Slan Sdn Bhd	82,132	-	(82,132)	-
	Ginagini Sdn Bhd	3,945,451	-	(3,945,451)	-
	Indigenous Capital Sdn Bhd	280,435	-	(280,435)	-
	Regal Genius Sdn Bhd	2,989,936	-	-	2,989,936
	Corporateview Sdn Bhd	-	31,658,738	-	31,658,738

#### AmlInvestment Group Berhad (other related company)

	Name of Company	No. of Renounceable Rights of RM1.00 each				Balance as of 31.3.2005
		Balance as of 1.4.2004	Bought	^ Rights	Sold	
Tan Sri Dato' Azman Hashim	Arab-Malaysian Corporation Berhad	-	-	150,896,688	-	150,896,688
	AMDB Equipment Trading Sdn Bhd	-	-	100,646	-	100,646
	Azman Hashim Holdings Sdn Bhd	-	-	209,502	-	209,502
	Regal Genius Sdn Bhd	-	-	6,760,238	-	6,760,238
	AMMB Holdings Bhd	1,109,442,000	-	-	-	-1,109,442,000

^ Arising from the restricted offer for sale by AHB to eligible employees pursuant to the listing of AmlInvestment Group Berhad on the Main Board of the Bursa Malaysia Securities Berhad.

## directors' report

### DIRECTORS' INTERESTS (CONTD.)

#### AMFB Holdings Berhad (other related company)

	Name of Company	Number of ordinary shares of RM1.00 each				Balance as of 31.3.2005
		Balance as of 1.4.2004	Bought	*Share Exchange	Sold	
Tan Sri Dato' Azman Hashim	AMDB Equipment Trading Sdn Bhd	241,047	-	(241,047)	-	-

\* Arising from the exchange of share on the basis of one (1) new AMMB Holdings Berhad ("AHB") share for every one (1) existing AMFB Holdings Berhad ("AMFB") share held by AMFB shareholders other than AHB.

By virtue of their shareholdings as mentioned above, the above directors are deemed to have an interest in the shares of the Company and its related companies, to the extent that the ultimate holding company has interest.

### PROVISION FOR OUTSTANDING CLAIMS

Before the income statement and balance sheet of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims.

### OTHER STATUTORY INFORMATION

- (a) Before the income statement and balance sheet of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.

**directors' report****OTHER STATUTORY INFORMATION (CONTD.)**

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

- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (ii) any contingent liability of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may substantially affect the ability of the Company to meet its obligations as and when they fall due. For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Company for the financial year in which this report is made.

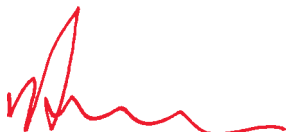
**ULTIMATE HOLDING COMPANY**

The ultimate holding company of the Company is AMMB Holdings Berhad, a public listed company incorporated in Malaysia.

**AUDITORS**

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

The directors' report of AmAssurance Berhad for the financial year ended 31 March 2005 is signed on behalf of the Board in accordance with a resolution of the directors.



Tan Sri Dato' Azman Hashim



Dato' Azlan Hashim

Kuala Lumpur, Malaysia  
26 May 2005



## STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Tan Sri Dato' Azman Hashim and Dato' Azlan Hashim, being two of the directors of AmAssurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 17 to 66 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 March 2005 and of the results and the cash flows of the Company for the year then ended.

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

Tan Sri Dato' Azman Hashim

Dato' Azlan Hashim

Kuala Lumpur, Malaysia  
26 May 2005

## STATUTORY DECLARATION

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

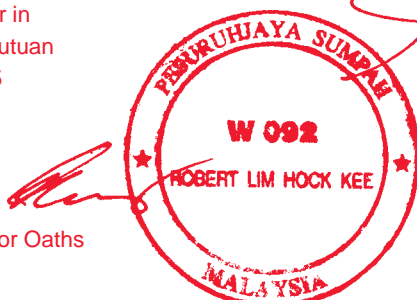
I, Ng Lian Lu, being the officer primarily responsible for the financial management of AmAssurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 17 to 66 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared  
by the abovenamed Ng Lian Lu  
at Kuala Lumpur in  
Wilayah Persekutuan  
on 26 May 2005

Ng Lian Lu

Before me,

Commissioner for Oaths



Lot 210, Ting: 2, Bangunan Angkasa Raya  
Jalan Ampang, 50450 Kuala Lumpur

## REPORT OF THE AUDITORS TO THE MEMBERS OF AMASSURANCE BERHAD

We have audited the accompanying financial statements set out on pages 17 to 66. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
  - (i) the financial position of the Company as at 31 March 2005 and of the results and the cash flows of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



Ernst & Young  
AF: 0039  
Chartered Accountants



Pushpanathan a/l S.A. Kanagarayar  
No. 1056/03/07 (J/PH)  
Partner

Kuala Lumpur, Malaysia  
26 May 2005

## BALANCE SHEET

AS AT 31 MARCH 2005

	Note	2005 RM'000	2004 RM'000
<b>ASSETS</b>			
<b>General business and shareholders' fund assets</b>			
Property, plant and equipment	3	15,991	14,542
Subsidiary company	4	6,000	6,000
Investments	5	482,418	392,179
Loans	6	1,128	837
Receivables	7	44,056	43,017
Cash and bank balances		6,822	10,783
<b>Total general business and shareholders' fund assets</b>		556,415	467,358
<b>Total life business assets (page 21)</b>		941,375	739,912
<b>TOTAL ASSETS</b>		1,497,790	1,207,270
<b>LIABILITIES</b>			
<b>General business and shareholders' fund liabilities</b>			
Provision for outstanding claims	8	205,413	170,205
Payables	9	45,499	45,441
Amount owing to a subsidiary company	4	7,565	7,565
Subordinated term loan	10	30,000	30,000
Deferred tax liabilities	11	842	877
<b>Total general business and shareholders' fund liabilities</b>		289,319	254,088
<b>Total life business liabilities (page 21)</b>		75,192	57,414
		364,511	311,502
<b>INSURANCE RESERVES</b>			
Unearned premium reserves	12	173,212	133,867
Life policyholders' fund	13	811,098	631,405
Unitholders' investment-linked fund	25	7,529	4,533
<b>Total insurance reserves</b>		991,839	769,805
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital	14	100,000	100,000
Unappropriated profit		41,440	25,963
Shareholders' Equity		141,440	125,963
<b>TOTAL LIABILITIES, INSURANCE RESERVES AND SHAREHOLDERS' EQUITY</b>		1,497,790	1,207,270

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

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2005

	Note	Issued Capital RM'000	Distributable Unappropriated profit RM'000	Total RM'000
At 1 April 2003		100,000	4,971	104,971
Net profit for the year		-	26,032	26,032
Dividends	15	-	(5,040)	(5,040)
At 31 March 2004		100,000	25,963	125,963
Net profit for the year		-	22,677	22,677
Dividends	15	-	(7,200)	(7,200)
At 31 March 2005		100,000	41,440	141,440

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

## INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 RM'000	2004 RM'000
Operating revenue	16	767,481	629,455
Transfers from/(to) insurance revenue accounts:			
General business		30,108	40,016
Life fund		2,000	(5,000)
		32,108	35,016
Shareholders' fund:			
Investment income	17	267	325
Net other operating expenses	18	(47)	(8)
		220	317
Profit before taxation		32,328	35,333
Taxation	20	(9,651)	(9,301)
Net profit for the year		22,677	26,032
Earnings per ordinary share (sen)	21	23	26

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

## GENERAL INSURANCE REVENUE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2005

	Note	Fire		Motor		Marine & Aviation		Misc.		Total	
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	16									410,712	341,224
Gross premium		29,452	34,811	308,380	233,498	4,676	8,880	47,850	48,922	390,358	326,111
Reinsurance		(16,546)	(21,801)	(19,361)	(16,896)	(3,298)	(7,386)	(24,910)	(25,183)	(64,115)	(71,266)
Net premium		12,906	13,010	289,019	216,602	1,378	1,494	22,940	23,739	326,243	254,845
(Increase)/decrease in unearned premium reserves	12	(848)	85	(38,384)	(44,640)	283	(18)	(396)	(3,337)	(39,345)	(47,910)
Earned premium		12,058	13,095	250,635	171,962	1,661	1,476	22,544	20,402	286,898	206,935
Net claims incurred	22	(4,785)	(2,915)	(177,517)	(117,217)	255	(735)	(11,180)	(8,961)	(193,227)	(129,828)
Net commission		(578)	(1,390)	(27,939)	(22,969)	(107)	(130)	(4,849)	(5,024)	(33,473)	(29,513)
Underwriting surplus before management expenses		6,695	8,790	45,179	31,776	1,809	611	6,515	6,417	60,198	47,594
Management expenses	19									(50,769)	(39,547)
Underwriting surplus										9,429	8,047
Investment income	17									20,354	15,113
Net other operating income	18									338	16,869
Profit from operations										30,121	40,029
Finance cost	23									(13)	(13)
Transfer to income statement										30,108	40,016

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

## LIFE FUND BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 RM'000	2004 RM'000
<b>ASSETS</b>			
Property, plant and equipment	3	4,388	3,131
Investments	5	826,953	638,495
Loans	6	68,946	60,762
Receivables	7	24,195	20,386
Cash and bank balances		9,291	12,577
Investment-linked business assets	25	7,602	4,561
<b>Total life business assets</b>		<b>941,375</b>	<b>739,912</b>
<b>LIABILITIES</b>			
Provision for outstanding claims	8	25,647	18,761
Payables	9	47,873	36,877
Tax liabilities		1,350	1,603
Deferred tax liabilities	11	249	145
Investment-linked business liabilities	25	73	28
<b>Total life business liabilities</b>		<b>75,192</b>	<b>57,414</b>
Amount due to shareholders' fund		47,556	46,560
<b>Total liabilities</b>		<b>122,748</b>	<b>103,974</b>
<b>INSURANCE RESERVES</b>			
Life policyholders' fund	13	811,098	631,405
Unitholders' investment linked fund	25	7,529	4,533
<b>Total insurance reserves</b>		<b>818,627</b>	<b>635,938</b>
<b>Total life business liabilities and insurance reserves</b>		<b>941,375</b>	<b>739,912</b>

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

## LIFE FUND REVENUE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 RM'000	2004 RM'000
Operating revenue	16	356,502	287,906
Gross premium		312,096	256,088
Reinsurance		(25,107)	(17,732)
Net premium		286,989	238,356
Benefits paid and payable:			
Death		(19,595)	(14,388)
Maturity		(7,153)	(5,929)
Surrender		(20,509)	(19,740)
Cash bonus		(1,015)	(1,230)
Others		(9,509)	(6,747)
		(57,781)	(48,034)
		229,208	190,322
Commission and agency expenses		(58,302)	(44,632)
Management expenses	19	(34,237)	(30,886)
		(92,539)	(75,518)
Balance of transactions		136,669	114,804
Investment income	17	44,406	31,818
Net other operating income	18	4,563	20,036
Surplus before taxation		185,638	166,658
Taxation	20	(3,945)	(3,369)
Surplus after taxation		181,693	163,289
Life policyholders' fund at beginning of year		631,405	463,116
		813,098	626,405
Transfer (to)/from income statement		(2,000)	5,000
Life policyholders' fund at end of year		811,098	631,405

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



## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	2005 RM'000	2004 RM'000
<b>CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES</b>		
Profit before taxation	32,328	35,333
Adjustments for:		
Life fund underwriting surplus	185,638	166,658
Investment-linked surplus	2,996	4,533
Increase in unearned premium reserves	39,345	47,910
Transfer (to)/from shareholders' fund (from)/to life fund	(2,000)	5,000
Depreciation of property, plant and equipment	4,336	4,796
(Accretion of discounts)/Amortisation of premium - net	(1,917)	89
Interest expense	13	13
Interest income	(47,856)	(41,587)
Net investment gain realised/unrealised	(7,644)	(21,065)
Provision/(writeback) for impairment in value of investments	3,143	(15,766)
Writeback of provision for doubtful debts	(255)	(2,309)
Rental income	(2,222)	(413)
Dividend income	(8,437)	(5,364)
Loss/(profit) on disposal of property, plant and equipment	376	(18)
Provision for retirement benefit	55	123
Operating profit from operations before changes in operating assets and liabilities	197,899	177,933
Purchase of investments	(547,174)	(912,028)
Proceeds from realisation of investments	250,389	750,294
(Increase)/decrease in assets:		
Loans	(8,473)	(5,037)
Amount owing by agents/brokers, co-insurers and reinsurers/cedants	(4,058)	(4,954)
Other receivables, deposits and prepayments	2,905	(2,014)
Amount owing by other related companies	(22)	(818)
Fixed and call deposits	56,261	(67,328)
	(52,273)	(63,952)

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

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005 (CONTD.)

	<b>Company</b>	
	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>
Increase/(decrease) in liabilities:		
Provision for outstanding claims	42,095	39,974
Amount owing to agents/brokers, co-insurers, insureds and reinsurers/cedants	(456)	12,320
Amount owing to other related companies	258	308
Other payables and accrued expense	9,275	12,807
Cash (used)/generated in operations	(1,101)	1,457
Interest received	45,411	38,518
Rental received	1,826	335
Dividend received	6,340	302
Retirement benefit paid	(71)	0
Interest paid	(13)	(13)
Income tax paid	(10,022)	(9,895)
Net cash generated from operating activities	42,370	30,704
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	221	126
Additions to property, plant and equipment	(7,641)	(5,686)
Additions to investment properties	(34,751)	(7,269)
Net cash used in investing activities	(42,171)	(12,829)
<b>CASH FLOWS USED IN FINANCING ACTIVITY</b>		
Repayment of finance lease payables	(242)	(265)
Dividend paid	(7,200)	(5,040)
Net cash used in financing activity	(7,442)	(5,305)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	(7,243)	12,570
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	23,362	10,792
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	16,119	23,362
<b>Cash and Cash equivalents comprise:</b>		
Cash and bank balances:		
General business	6,822	10,783
Life fund	9,291	12,577
Investment - linked fund	6	2
	16,119	23,362

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

# NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2005

## 1. CORPORATE INFORMATION

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

The principal activity of the subsidiary is described in Note 4 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at 9th Floor, Bangunan AMDB, No. 1 Jalan Lumut, 50400 Kuala Lumpur.

The ultimate holding company of the Company is AMMB Holdings Berhad, a public listed company incorporated in Malaysia.

The total number of employees of the Company as of 31 March 2005 was 821 (2004 : 793).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 26 May 2005.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

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

General business assets and liabilities relate to both general insurance and shareholders' funds.

### (b) Property, Plant and Equipment

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

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

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

## notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (b) Property, Plant and Equipment (Contd.)

Computer equipment under installation is not depreciated and is stated at cost, until such time when such assets are completed and are ready for active use.

Upon disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement/revenue accounts.

#### (c) 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 less impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(f).

#### (d) Investments

- (i) Malaysian Government Securities and other approved investments as specified by BNM are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated from the date of purchase to date of maturity on an effective yield basis. The amortisation of premium and accretion of discounts are recognised in the income statement/revenue accounts.
- (ii) Corporate bonds which are secured or which carry a minimum rating of "BBB" or "P3" are valued at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on an effective yield basis from the dates of purchase to the maturity dates. Any bond with a lower rating is valued at the lower of cost and net realisable value. The amortisation of premiums and accretion of discounts are recognised in the income statement and/or revenue accounts.
- (iii) 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 in accordance with the requirements of BNM, specific provision is made against the value of that investment.
- (iv) Investments of the investment-linked business are stated at the closing market prices as at the balance sheet date. Unrealised gains and losses on these investments are taken into the investment-linked business income statement.
- (v) Unquoted and other investments are stated at cost less provision for any impairment in value. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(f).

 notes to the **financial statements****2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)****(e) Investment Properties**

Investment properties are stated at cost and include related and incidental expenditure incurred. Investment properties are not depreciated. The carrying amount of investment properties is reduced to recognise impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(f).

On disposal of investment properties, the difference between net proceeds and the carrying amount is recognised in the income statement/revenue accounts.

**(f) Impairment of Assets**

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is charged to the income statement and/or revenue accounts immediately. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statements and/or revenue accounts immediately.

**(g) Interest Income and Other Income**

Interest income is recognised in the financial statements on an accrual basis except for interest on loans which are 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.

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

**(h) Rental Income**

Rental income is recognised on an accrual basis 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.

**(i) Dividend Income**

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

## notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (j) 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 reinsurances, unearned premium reserves, net commissions, net claims incurred and any other additional reserves.

##### (i) 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.

##### (ii) Unearned Premium Reserves

The Unearned Premium Reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial year. In determining the UPR at the balance sheet date, the method that most accurately reflects the actual unearned premium is used as follows:

- 25% method for marine cargo, aviation cargo and transit business;
- 1/24th method for all other classes of Malaysian policies reduced by the corresponding percentage of accounted gross direct business commissions and agency-related expenses not exceeding the limits specified by BNM as follows:

Motor	10%
Fire, engineering, aviation and marine hull	15%
Medical and health	
- Standalone individuals	15%
- Group of 3 or more	10%
Workmen's compensation and employers' liability	
- Foreign workers	10%
- Others	25%
Other classes	10% - 25%

- 1/8th method for all other classes of overseas inward treaty business with a deduction of 20% for commission.
- Non-annual policies are time apportioned over the period of the risks

##### (iii) Acquisition Costs

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

##### (iv) 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-based method.

Provision is also made for the cost of claims together with related expenses incurred but not reported ("IBNR") at balance sheet date based on an actuarial estimation by the Company's in-house qualified actuary ("appointed actuary") using a mathematical method of estimation.

## notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (k) Life Insurance Underwriting Results

The surplus transferable from the life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long-term liabilities to policyholders, made in accordance with the provisions of the Insurance Act, 1996 by the Company's appointed actuary. Any deficit arising from the actuarial valuation is recoverable from the shareholders' fund.

##### (i) 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.

##### (ii) 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.

##### (iii) 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.

#### (l) Income Tax

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

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

## notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (l) Income Tax (Contd.)

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

#### (m) Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in Ringgit Malaysia at rates of exchange ruling at the dates of the transactions. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rates that existed when the values were determined. All exchange rate differences are taken to the income statement/revenue accounts.

The principal exchange rate for every unit of United States Dollar ruling at balance sheet date used is RM3.80 (2004 : RM3.80).

#### (n) Employee Benefits

##### (i) Short-term benefits

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

##### (ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

#### (o) Assets Acquired Under Finance Lease Arrangements

Assets acquired under finance lease arrangements are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as finance lease payables. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.



## notes to the financial statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

#### (o) Assets Acquired Under Finance Lease Arrangements (Contd.)

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represents the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

#### (p) Cash and Cash Equivalents

For the purpose of the cash flow statements, cash and cash equivalents consist of cash on hand and at bank, excluding fixed and call deposits.

The cash flow statement has been prepared using the indirect method.

#### (q) Financial Instruments

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

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

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

#### (i) Receivables

Receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

Specific provisions are made for any premiums including agents, brokers or reinsurance balances which remain outstanding for more than six months from the date on which they become receivable.

#### (ii) Payables

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

#### (iii) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and accounted for in the statement of changes in equity in the period in which they are declared.

## notes to the financial statements

### 3. PROPERTY, PLANT AND EQUIPMENT

#### General business and shareholders' fund

2005

	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	1,126	19,861	5,173	506	36,460
Additions	-	-	3,727	800	15	4,542
Disposals	-	(430)	(735)	(3)	-	(1,168)
Write off	-	(2)	(70)	(60)	-	(132)
Transfer	-	-	492	-	(506)	(14)
At end of year	9,794	694	23,275	5,910	15	39,688
<b>Accumulated Depreciation</b>						
At beginning of year	1,860	754	16,051	3,253	-	21,918
Charge for the year	196	139	1,624	538	-	2,497
Disposals	-	(394)	(181)	(3)	-	(578)
Write off	-	(2)	(70)	(54)	-	(126)
Transfer	-	-	(14)	-	-	(14)
At end of year	2,056	497	17,410	3,734	-	23,697
<b>Net Book Value</b>						
At beginning of year	7,934	372	3,810	1,920	506	14,542
At end of year	7,738	197	5,865	2,176	15	15,991
<b>Details at 1 April 2003</b>						
Cost	9,794	1,307	16,798	4,159	447	32,505
Accumulated Depreciation	1,664	646	13,634	2,778	-	18,722
<b>Depreciation charge for 2004</b>						
	196	186	2,423	506	-	3,311

Under general business and shareholders' fund, the cost and net book value of the office equipment and computer acquired under finance lease arrangements amounted to RM1,326,000 (2004 : RM1,326,000) and RM1 (2004 : RM1) respectively.

## notes to the financial statements

### 3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

#### Life fund

#### 2005

	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	425	10,805	5,589	-	16,819
Additions	-	804	1,889	420	3,113
Disposals	(158)	(273)	-	-	(431)
Write off	-	(31)	(17)	-	(48)
Transfer	-	14	-	-	14
At end of year	267	11,319	7,461	420	19,467
<b>Accumulated Depreciation</b>					
At beginning of year	265	9,177	4,246	-	13,688
Charge for the year	53	1,116	670	-	1,839
Disposals	(158)	(273)	-	-	(431)
Write off	-	(30)	(1)	-	(31)
Transfer	-	14	-	-	14
At end of year	160	10,004	4,915	-	15,079
<b>Net Book Value</b>					
At beginning of year	160	1,628	1,343	-	3,131
At end of year	107	1,315	2,546	420	4,388
<b>Details at 1 April 2003</b>					
Cost	425	10,176	4,737	-	15,338
Accumulated Depreciation	180	8,127	3,923	-	12,230
<b>Depreciation charge for 2004</b>	85	1,074	326	-	1,485

Include in property, plant and equipment of the Company are fully depreciated assets which are still in use, costing approximatel RM31,223,000 (2004 : RM23,209,000).

## notes to the financial statements

### 4. SUBSIDIARY COMPANY

#### General business and shareholders' fund

	2005 RM'000	2004 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
			2005 %	2004 %	
Arab-Malaysian Services Bhd.	Malaysia	6,000	100	100	Dormant

The financial statements of the subsidiary company are 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 the subsidiary company arose mainly from non-trade advances which are unsecured, interest free and have no fixed terms of repayment.

### 5. INVESTMENTS

#### General business and shareholders' fund

	2005		2004	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Malaysian Government Securities	53,094		28,069	
Amortisation of premiums net of accretion of discounts	(961)		(381)	
	52,133	52,175	27,688	26,952
Government investment issues	18,683		8,671	
Accretion of discounts	496		219	
	19,179	19,179	8,890	8,518
Cagamas bonds	25,005		25,005	
Amortisation of premiums net of accretion of discounts	(2)		(2)	
	25,003	25,003	25,003	24,379

## notes to the financial statements

### 5. INVESTMENTS (CONTD.)

#### General business and shareholders' fund (Contd.)

	2005		2004	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Shares of corporations quoted in Malaysia	64,940		39,301	
Provision for diminution in value	(2,541)		(17)	
	<u>62,399</u>	<u>62,399</u>	<u>39,284</u>	<u>41,476</u>
Unit trusts	20,006		21,185	
Provision for diminution in value	(521)		(387)	
	<u>19,485</u>	<u>20,202</u>	<u>20,798</u>	<u>22,153</u>
Unquoted shares of corporations	44		74	
Provision for diminution in value	(44)		(74)	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Quoted bonds of corporations	2,500		4,333	
Accretion of discounts	-		494	
	<u>2,500</u>	<u>2,550</u>	<u>4,827</u>	<u>4,938</u>
Negotiable Instruments of Deposits	30,953		22,173	
Amortisation of premiums net of accretion of discounts	(216)		(169)	
	<u>30,737</u>	<u>30,737</u>	<u>22,004</u>	<u>22,004</u>
Unquoted bonds of corporations	197,807		172,068	
Accretion of discounts net of amortisation of premiums	2,505		1,233	
	<u>200,312</u>	<u>200,312</u>	<u>173,301</u>	<u>173,301</u>
Investment-linked fund	4,000		4,000	
Fixed and call deposits with:				
Licensed banks	6,911		6,722	
Licensed finance companies	2,234		2,158	
Other corporations	57,525		57,504	
	<u>66,670</u>	<u>66,670</u>	<u>66,384</u>	<u>66,384</u>
Total investments	<u>482,418</u>	<u>482,418</u>	<u>392,179</u>	<u>392,179</u>

Included in fixed and call deposits are RM49,142,000 (2004 : RM29,578,000) placed with other related companies with interest rates ranging from 2.5% to 3%.

## notes to the financial statements

### 5. INVESTMENTS (CONTD.)

#### Life fund

	2005		2004	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investment properties:				
Freehold land and building	52,373		17,622	
Malaysian Government Securities	91,165		43,132	
Amortisation of premiums net of accretion of discounts	(1,333)		(663)	
	89,832	90,367	42,469	40,156
Government investment issues	5,008	5,008		
Cagamas bonds	5,000		5,000	
Amortisation of premiums net of accretion of discounts	-		-	
	5,000	5,000	5,000	4,825
Shares of corporations quoted in Malaysia	102,356	102,897	82,130	91,939
Unit trusts	22,079		18,043	
Provision for diminution in value	(169)		(99)	
	21,910	22,778	17,944	19,253
Unquoted shares of corporations	2,147		2,147	
Provision for diminution in value	(22)		(21)	
	2,125		2,126	
Negotiable Instruments of Deposits	17,101		8,322	
Amortisation of premiums net of accretion of discounts	(1)		(55)	
	17,100		8,267	
Unquoted bonds of corporations	350,468		231,799	
Accretion of discounts net of amortisation of premiums	3,538		1,459	
	354,006		233,258	
Bond of corporation quoted in Malaysia	5,000	5,100		

## notes to the financial statements

### 5. INVESTMENTS (CONTD.)

#### Life fund (Contd.)

	2005		2004	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Fixed and call deposits with:				
Licensed banks	17,066		19,703	
Licensed finance companies	101,237		101,263	
Other corporations	53,940		108,713	
	<u>172,243</u>		<u>229,679</u>	
Total investments	<u>826,953</u>		<u>638,495</u>	

Included in fixed and call deposits are RM146,682,000 (2004 : RM144,183,000) placed with other related companies with interest rates ranging from 2.5% to 7%.

Included in investment properties of the life fund are properties with a total net book value amounting to RM34,751,000 (2004 : Nil), for which the title deeds are still in the process of being transferred to the Company.

### 6. LOANS

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Policy loans	-	-	59,459	52,016
Mortgage loans	-	-	9,392	8,638
Provisions for doubtful debts	-	-	(411)	(411)
	<u>-</u>	<u>-</u>	<u>8,981</u>	<u>8,227</u>
Other secured loans	1,140	859	606	612
Provision for doubtful debts	(12)	(22)	(100)	(93)
	<u>1,128</u>	<u>837</u>	<u>506</u>	<u>519</u>
	<u>1,128</u>	<u>837</u>	<u>68,946</u>	<u>60,762</u>
Receivables:				
- within 12 months	283	207	1,133	1,354
- after 12 months	845	630	67,813	59,408
	<u>1,128</u>	<u>837</u>	<u>68,946</u>	<u>60,762</u>

## notes to the financial statements

### 7. RECEIVABLES

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Trade receivables</b>				
Outstanding premiums including agents/ brokers and co-insurers balances	39,841	36,372	9,357	8,246
Provision for doubtful debts	(8,506)	(7,286)	(294)	(691)
	31,335	29,086	9,063	7,555
Amount owing by reinsurers/cedants	4,553	5,553	5,043	4,565
Provision for doubtful debts	(2,984)	(4,057)	(852)	(852)
	1,569	1,496	4,191	3,713
	32,904	30,582	13,254	11,268
<b>Other receivables</b>				
Other receivables, deposits and prepayments	4,601	7,539	2,440	3,363
Provision for doubtful debts	(450)	(450)	-	-
	4,151	7,089	2,440	3,363
Tax recoverable	3,013	1,915	-	-
Malaysian Institute of Insurance ("MII") bonds	200	200	-	-
Income due and accrued	3,762	3,199	8,464	5,746
Amount owing by other related companies	26	32	37	9
	11,152	12,435	10,941	9,118
	44,056	43,017	24,195	20,386
Amount due from life fund	47,556	46,560		
	91,612	89,577		

In the composite balance sheet on page 17, the amount due from life fund of RM47,556,000 (2004 : RM46,560,000) has been offset against the amount due to shareholders' fund in the life fund balance sheet on page 21.

Included in the amount owing by reinsurers/cedants of the general business as at 31 March 2005 are the balances for which statements from third parties have not been received amounting to RM3,347,000.

In cases where statements from third parties have not been received, the Company makes specific requests to the parties concerned to submit such statements, in order to facilitate the reconciliation exercise. Where statements of accounts were received, the unreconciled differences did not exceed 2% of the gross balances outstanding in the respective categories of assets.



## notes to the financial statements

### 8. PROVISION FOR OUTSTANDING CLAIMS

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Provision for outstanding claims	308,940	266,859	27,510	20,624
Recoverable from reinsurers	(103,527)	(96,654)	(1,863)	(1,863)
Net outstanding claims				
	205,413	170,205	25,647	18,761

### 9. PAYABLES

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Trade payables</b>				
Amount owing to agents/ brokers, co-insurers and insureds	12,724	16,211	4,405	3,477
Amount owing to reinsurers/cedants	17,095	16,441	6,416	4,967
	29,819	32,652	10,821	8,444
<b>Other payables</b>				
Finance lease payables	179	421	-	-
Other payables and accrued expenses	15,410	12,368	35,821	27,368
Amount owing to other related companies	91	-	1,231	1,065
	15,680	12,789	37,052	28,433
	45,499	45,441	47,873	36,877

Included in the amount owing to reinsurers/cedants of the general business as at 31 March 2005 are the balances for which statements from third parties have not been received amounting to RM4,060,000.

In cases where statements from third parties have not been received, the Company makes specific requests to the parties concerned to submit such statements, in order to facilitate the reconciliation exercise. Where statements of accounts were received, the unreconciled differences did not exceed 2% of the gross balances outstanding in the respective categories of assets.

## notes to the financial statements

### 9. PAYABLES (CONTD.)

The finance lease payables of general business comprise the following:

	General business and shareholders' fund			
	Minimum lease payments		Present value of minimum lease payments	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Amounts payable under finance lease:				
Within one year	186	278	179	265
In the second to fifth years inclusive	-	163	-	156
	186	441	179	421
Less: Future finance charges	(7)	(20)	-	-
Present value of lease payables	179	421	179	421
Less: Amount due within 12 months			(179)	(265)
Non-current portion			-	156

The non-current portion is repayable as follows:

	2005 RM'000	2004 RM'000
Financial year ending 31 March 2006	-	156

The effective borrowing rate was 1% (2004 : 1%) per annum.

The above finance lease has been settled subsequent to year end.

### 10. SUBORDINATED TERM LOAN

	2005 RM'000	2004 RM'000
<b>General business and shareholders' fund</b>		
Subordinated term loan	30,000	30,000

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

## notes to the financial statements

### 10. SUBORDINATED TERM LOAN (CONTD.)

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% 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 was waived with effect from 1 July 2000 as instructed by BNM.

The shareholders of the Company have 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 million was completed on 5 November 2001.

Accordingly, RM50 million of the above loan was repaid by the Company in 2002. BNM had agreed for the Company to maintain RM30 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 BNM.

The above loan is due in the month of June 2005. The Company is in the process of seeking approval from BNM for the extension of the loan term for another 2 years.

### 11. DEFERRED TAX LIABILITIES

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At beginning of year	(877)	-	(145)	-
Recognised in the Income Statement/Life Insurance Revenue Accounts (Note 20)	35	(877)	(104)	(145)
At end of year	(842)	(877)	(249)	(145)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Net deferred tax liabilities shown on the Balance Sheets have been determined after considering appropriate offsetting as follows:

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deferred tax assets	446	134	15	10
Deferred tax liabilities	(1,288)	(1,011)	(264)	(155)
	(842)	(877)	(249)	(145)

## notes to the financial statements

### 11. DEFERRED TAX LIABILITIES (CONTD.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

#### 2005

##### Deferred tax assets

##### General business and shareholders' fund

	Provision for diminution of investment RM'000	Others RM'000	Total RM'000
At 1 April 2004	134	-	134
Recognised in the Income Statement	196	116	312
At 31 March 2005	330	116	446

##### Life fund

	Provision for diminution of investment RM'000
At 1 April 2004	10
Recognised in Life Insurance Revenue Accounts	5
At 31 March 2005	15

#### 2004

##### Deferred tax assets

##### General business and shareholders' fund

	Provision for diminution of investment RM'000
At 1 April 2003	-
Recognised in the Income Statement	134
At 31 March 2004	134


 notes to the **financial statements**
**11. DEFERRED TAX LIABILITIES (CONTD.)**

	<b>Provision for diminution of investment RM'000</b>
<b>Life fund</b>	
At 1 April 2003	-
Recognised in Life Insurance Revenue Accounts	10
At 31 March 2004	10

**2005****Deferred Tax Liabilities****General business and shareholders' fund**

	<b>Accelerated capital allowance on property, plant and equipment RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
At 1 April 2004	(842)	(169)	(1,011)
Recognised in the Income Statement	(446)	169	(277)
At 31 March 2005	(1,288)	-	(1,288)

**Life fund**

	<b>Accelerated capital allowance on property, plant and equipment RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
At 1 April 2004	(95)	(60)	(155)
Recognised in Life Insurance Revenue Accounts	7	(116)	(109)
At 31 March 2005	(88)	(176)	(264)

## notes to the financial statements

### 11. DEFERRED TAX LIABILITIES (CONTD.)

2004

#### Deferred Tax Liabilities

##### General business and shareholders' fund

	Accelerated capital allowance on property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 April 2003	-	-	-
Recognised in the Income Statement	(842)	(169)	(1,011)
At 31 March 2004	(842)	(169)	(1,011)

##### Life fund

	Accelerated capital allowance on property, plant and equipment RM'000	Net accretion of discounts RM'000	Total RM'000
At 1 April 2003	-	-	-
Recognised in Life Insurance Revenue Accounts	(95)	(60)	(155)
At 31 March 2004	(95)	(60)	(155)

### 12. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, aviation and transit RM'000	Miscellaneous RM'000	Total RM'000
2005					
At beginning of year	6,668	112,757	829	13,613	133,867
Increase/(decrease) in unearned premium reserves	848	38,384	(283)	396	39,345
At end of year	7,516	151,141	546	14,009	173,212

## notes to the financial statements

### 12. UNEARNED PREMIUM RESERVES (CONTD.)

	Fire RM'000	Motor RM'000	Marine, aviation and transit RM'000	Miscellaneous RM'000	Total RM'000
2004					
At beginning of year	6,753	68,117	811	10,276	85,957
Increase/(decrease) in premium reserves	(85)	44,640	18	3,337	47,910
At end of year	6,668	112,757	829	13,613	133,867

### 13. LIFE POLICYHOLDERS' FUND

Based on the actuarial valuation of the fund made up to 31 March 2005, the actuary was satisfied that the assets available in the life fund are sufficient to meet its long term liabilities to policyholders.

	2005 RM'000	2004 RM'000
<b>Actuarial liabilities:</b>		
At beginning of year	586,179	423,885
Add: Increase in policy reserves	188,739	151,655
Bonus allocated to participating policyholders	9,007	9,317
Add: (Increase)/decrease in reinsurance	(22,295)	1,322
	175,451	162,294
At end of year	761,630	586,179
<b>Unallocated surplus:</b>		
At beginning of year	45,226	39,231
Add: (Deficit)/surplus arising during the year	(7,046)	11,634
Increase/(decrease) in reinsurance	22,295	(1,322)
Transfer (to)/from shareholders' fund	(2,000)	5,000
Less: Bonus allocated to policyholders	(9,007)	(9,317)
- from normal surplus		
	4,242	5,995
At end of year	49,468	45,226
<b>Life policyholders' fund at end of year:</b>		
Actuarial liabilities	761,630	586,179
Unallocated surplus	49,468	45,226
	811,098	631,405

## notes to the financial statements

### 14. SHARE CAPITAL

	2005 RM'000	2004 RM'000
<b>Authorised:</b>		
100,000,000 ordinary shares of RM1 each	100,000	100,000
<b>Issued and fully paid:</b>		
100,000,000 ordinary shares of RM1 each	100,000	100,000

### 15. DIVIDENDS

	2005 RM'000	2004 RM'000
Final dividend in respect of previous financial year - 5% (2004 : 5%), less tax	3,600	3,600
Interim dividend - 5% (2004 : 2%), less tax	3,600	1,440
	7,200	5,040

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 March 2005 of 10% less tax, on 100,000,000 ordinary shares amounting to a total dividend of RM7,200,000 (7.2 sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 31 March 2006.

### 16. OPERATING REVENUE

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000	Total RM'000
<b>2005</b>				
Gross premiums	-	390,358	312,096	702,454
Investment income (Note 17)	267	20,354	44,406	65,027
	267	410,712	356,502	767,481
<b>2004</b>				
Gross premiums	-	326,111	256,088	582,199
Investment income (Note 17)	325	15,113	31,818	47,256
	325	341,224	287,906	629,455



## notes to the financial statements

### 17. INVESTMENT INCOME

	Shareholders' fund RM'000	General business RM'000	Life Fund RM'000
<b>2005</b>			
Interest from:			
Malaysian Government Securities	-	1,888	3,183
Cagamas bonds	-	807	157
Unquoted corporate bonds	268	10,465	17,765
Quoted corporate bonds	-	234	139
Mortgage loans	-	-	508
Policy loans	-	-	4,246
Other loans	-	49	38
Fixed and call deposits	4	2,660	10,232
Gross dividends from:			
Shares quoted in Malaysia	11	2,383	4,179
Other investments	-	942	799
Rental income	-	-	2,222
Accretion of discounts, net of amortisation of premiums	(16)	926	938
	267	20,354	44,406
<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 discounts, net of amortisation of premiums	13	43	(145)
	325	15,113	31,818

## notes to the financial statements

### 18. NET OTHER OPERATING INCOME/(EXPENSES)

	Shareholders' fund RM'000	General business RM'000	Life Fund RM'000
<b>2005</b>			
(Loss)/profit on disposal of property, plant and equipment	-	(428)	52
Realised loss on foreign exchange	-	(5)	(29)
Profit on disposal of investment in:			
Quoted shares	-	1,336	4,096
Unquoted corporate bonds	-	2,029	446
Sundry income	-	221	69
Provision for diminution in value of investment:			
Quoted shares	(44)	(2,656)	-
Unquoted shares	-	-	(1)
Other investments	-	(134)	(70)
Sundry expenditure	(3)	(25)	-
	(47)	338	4,563
<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 investment 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	-
Writeback of provision for diminution in value of investment:			
Quoted shares	193	6,763	8,136
Other investments	-	348	327
Provision for diminution in value of investment in unquoted shares	-	-	(1)
Sundry expenditure	(1)	(39)	(138)
	(8)	16,869	20,036

## notes to the financial statements

### 19) MANAGEMENT EXPENSES

2005	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
<b>Staff costs</b>			
Directors' remuneration (Note (a))	-	265	178
Chief Executive Officer's ("CEO") remuneration (Note (a))	-	554	370
Wages, salaries and bonuses	-	19,032	12,297
Contributions to EPF	-	2,941	1,932
Other employee benefits	-	1,378	1,626
	-	24,170	16,403
Writeback of provision for doubtful debts	-	(2,291)	(578)
Provisions for doubtful debts	-	2,427	187
Auditors' remuneration	-	60	38
Rental of office from third parties	-	600	1,435
Rental of office from other related companies	-	352	635
Depreciation of property, plant and equipment	-	2,497	1,839
IGSF levies	-	847	-
Other expenses	-	22,107	14,278
	-	26,599	17,834
	-	50,769	34,237
<b>2004</b>			
<b>Staff costs</b>			
Directors' remuneration (Note (a))	-	214	142
CEO's remuneration (Note (a))	-	505	337
Wages, salaries and bonuses	-	14,830	10,917
Contributions to EPF	-	2,305	2,036
Other employee benefits	-	1,007	1,923
	-	18,861	15,355
Writeback of provision for doubtful debts	-	(8,719)	(229)
Provisions for doubtful debts	-	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	-	18,245	12,279
	-	20,686	15,531
	-	39,547	30,886

## notes to the financial statements

### 19. MANAGEMENT EXPENSES (CONTD.)

#### (a) Directors' and CEO Remuneration

	General business		Life fund	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
<b>Non-executive directors:</b>				
Fees	156	162	104	108
Allowances and other emoluments	109	52	74	34
	265	214	178	142

The remuneration including benefits-in-kind, attributable to the CEO of the Company during the year amounting to RM924,000 (2004 : RM842,000).

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

	Number of directors	
	2005	2004
Non-executive directors:		
Below RM50,000	2	6
RM50,001 - RM100,000	6	2

### 20. TAXATION

	General business and shareholders' fund		Life fund	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Tax expense for the year	9,686	8,424	3,841	3,224
Deferred tax relating to origination and reversal of temporary differences (Note 11)	(35)	877	104	145
	9,651	9,301	3,945	3,369

Domestic income tax for general business and shareholders' fund is calculated at the Malaysian statutory rate of 28% (2004: 28%) of the estimated assessable profit for the year. The amount of tax charged on the life fund is based on the method prescribed under the Income Tax Act, 1967 for life business. A reconciliation of income tax expenses applicable to profit/surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the general business and shareholder's fund is as follows:

## notes to the financial statements

### 20. TAXATION (CONTD.)

#### (a) General business and shareholder's fund:

	2005 RM'000	2004 RM'000
Profit before tax	30,108	35,333
Taxation at Malaysian statutory tax rate of 28%	8,430	9,893
Income not subject to tax	(103)	-
Expenses not deductible for tax purposes	1,324	557
Reversal of deferred tax assets previously not recognised	-	(1,149)
Tax expense for the year	9,651	9,301

A reconciliation of income tax expenses applicable to surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the life fund is as follows:

#### (b) Life fund:

	2005 RM'000	2004 RM'000
Surplus before taxation	185,638	166,658
Taxation at Malaysian tax charge of 8%	14,851	13,333
Income not subject to tax	(23,039)	(19,149)
Expenses not deductible for tax purposes	12,133	9,812
Reversal of deferred tax assets previously not recognised	-	(627)
Tax expense for the year	3,945	3,369

As of 31 March 2005, the Company has tax exempt account amounting to about RM9,364,000 (2004: 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 2005 without additional tax liability being incurred.

## notes to the financial statements

### 21. EARNINGS PER ORDINARY SHARE

	2005 RM'000	2004 RM'000
<b>Basic</b>		
Net profit attributable to ordinary shareholders	22,677	26,032
Number of ordinary shares of RM1 each	100,000	100,000
Basic earnings per share (sen)	23	26

### 22. NET CLAIMS INCURRED

	Fire		Motor		Marine & Aviation			Misc.		Total	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000	
Gross claims paid less salvage	7,380	6,205	150,338	83,836	1,378	2,784	22,914	24,575	182,010	117,400	
Reinsurance recoveries	(3,476)	(3,292)	(9,475)	(6,885)	(500)	(2,071)	(10,540)	(12,262)	(23,991)	(24,510)	
Net claims paid	3,904	2,913	140,863	76,951	878	713	12,374	12,313	158,019	92,890	
Net outstanding claims:											
At end of year	5,852	4,971	176,727	140,073	2,196	3,329	20,638	21,832	205,413	170,205	
At beginning of year	(4,971)	(4,969)	(140,073)	(99,807)	(3,329)	(3,307)	(21,832)	(25,184)	(170,205)	(133,267)	
	881	2	36,654	40,266	(1,133)	22	(1,194)	(3,352)	35,208	36,938	
Net claims incurred	4,785	2,915	177,517	117,217	(255)	735	11,180	8,961	193,227	129,828	

### 23. FINANCE COSTS

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Interest on finance lease	13	13	-	-

## notes to the financial statements

### 24. CASH FLOW INFORMATION BY SEGMENT

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000	Total RM'000
<b>2005</b>				
Cash flows from/(used in):				
Operating activities	7,200	655	34,515	42,370
Investing activities	-	(4,374)	(37,797)	(42,171)
Financing activities	(7,200)	(242)	-	(7,442)
Net increase in cash and cash equivalents	-	(3,961)	(3,282)	(7,243)
Cash and cash equivalents:				
At beginning of year	-	10,783	12,579	23,362
At end of year	-	6,822	9,297	16,119
<b>2004</b>				
Operating activities	5,040	12,106	13,558	30,704
Investing activities	-	(4,054)	(8,775)	(12,829)
Financing activities	(5,040)	(265)	-	(5,305)
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

### 25. INVESTMENT-LINKED BUSINESS

#### BALANCE SHEET AS OF 31 MARCH 2005

	Note	2005 RM'000	2004 RM'000
<b>ASSETS</b>			
Investments	(a)	7,456	4,461
Amount due from Life Fund		40	28
Amount due from brokers		76	59
Other receivables		24	11
Cash and bank balances		6	2
		7,602	4,561

## notes to the financial statements

### 25. INVESTMENT-LINKED BUSINESS (CONTD.)

	Note	2005 RM'000	2004 RM'000
<b>LIABILITIES</b>			
Other payables		73	28
<b>NET ASSET VALUE OF FUNDS</b>			
		7,529	4,533
<b>REPRESENTED BY:</b>			
<b>UNITHOLDERS' ACCOUNT</b>		7,529	4,533

### INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 RM'000	2004 RM'000
Gross premium/creation of units of units		3,521	4,516
Benefits paid and payable/cancellation of units		(186)	(1)
		3,335	4,515
Management expenses		(34)	(31)
Net investment income	(b)	199	19
(Loss)/profit on disposal of investment in quoted shares		(263)	16
Unrealised capital (loss)/gain		(237)	14
Surplus before tax		3,000	4,533
Income tax expense	(c)	(4)	-
Surplus after tax		2,996	4,533
Unitholders' account at beginning of year		4,533	-
Unitholders' account at end of year		7,529	4,533




 notes to the **financial statements**
**25. INVESTMENT-LINKED BUSINESS (CONTD.)****(a) Investments**

	<b>2005</b>	<b>2004</b>
	<b>Cost/Market</b>	<b>Cost/Market</b>
	<b>Value</b>	<b>Value</b>
	<b>RM'000</b>	<b>RM'000</b>
Shares of corporations quoted in Malaysia		
At cost	3,868	2,505
Unrealised (loss)/gain	(230)	14
	<hr/> 3,638	<hr/> 2,519
Unquoted bonds of corporations	285	1,198
Accretion of discounts	8	4
	<hr/> 293	<hr/> 1,202
Unit trusts, at cost	1,890	-
Unrealised gain	7	-
	<hr/> 1,897	<hr/> -
Unit trusts, at market value	1,897	-
	<hr/> 1,628	<hr/> 740
Fixed and call deposits with licensed banks	1,628	740
Total investments by Investment-linked business	<hr/> 7,456	<hr/> 4,461
Investment maturing after 12 months:		
Unquoted bonds of corporations	293	1,202
	<hr/> 293	<hr/> 1,202

**(b) Net investment income**

	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>
Interest from:		
Unquoted corporate bonds	21	5
Fixed and call deposits	38	9
Gross dividends from shares quoted in Malaysia	124	2
Accretion of discounts, net	16	3
	<hr/> 199	<hr/> 19

## notes to the financial statements

### 25. INVESTMENT-LINKED BUSINESS (CONTD.)

#### (c) TAXATION

	2005 RM'000	2004 RM'000
Tax expense for the year	4	-

The Malaysian tax charge on the investment-linked business is based on the method prescribed under the Income Tax Act, 1967 for life business.

A reconciliation of income tax expenses applicable to surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the investment-linked business is as follows:

	2005 RM'000	2004 RM'000
Surplus before tax	3,000	4,533
Taxation at Malaysian statutory tax rate of 28%	240	363
Income not subject to tax	(277)	(363)
Expenses not deductible for tax purposes	41	-
Tax expense for the year	4	-

### 26. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The related parties and their relationship with the Company as of 31 March 2005 are as follows:

Name	Relationship
AMMB Holdings Berhad	Ultimate holding company
AmMerchant Bank Berhad	Other related company
AmFinance 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

## notes to the financial statements

### 26. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTD.)

Name	Relationship
Arab-Malaysian Corporation Berhad	A corporate shareholder of ultimate holding company
Syarikat Kompleks Damai Sdn. Bhd.	Company in which directors, Tan Sri Dato' Azman Hashim and Dato' Azlan Hashim, have financial interests
Harpers Travel (M) Sdn. Bhd.	Company in which directors, Tan Sri Dato' Azman Hashim and Dato' Azlan Hashim, have financial interests
Computer System Advisers (M) Berhad	Company in which a director of the ultimate holding company, Prof Tan Sri Dato' Dr Mohd Rashdan Bin Haji Baba, has a financial interest
AMDB Property Management Company	Company in which directors, Tan Sri Dato' Azman Hashim and Dato' Azlan Hashim, have financial interests
Medan Delima Sdn. Bhd.	Company in which directors, Tan Sri Dato' Azman Hashim and Dato' Azlan Hashim, have financial interest
MCM Consulting Sdn. Bhd.	Company in which directors, Tan Sri Dato' Azman Hashim and Dato' Azlan Hashim, have 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 a corporate shareholder's interest in 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 customers or employees, 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.

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Included in receivables (Note 7):</b>				
Outstanding premium including agents/brokers and co-insurers balances				
AmFinance Berhad	1,369	1,301	4	-
AmBank Berhad	1,298	691	503	108
Arab-Malaysian Corporation Berhad	-	-	7	3
AmMerchant Bank Berhad	366	243	5	2
	<b>3,033</b>	<b>2,235</b>	<b>519</b>	<b>113</b>

## notes to the financial statements

### 26. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTD.)

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Included in amount owing by other related companies (Note 7):</b>				
AmSecurities Sdn. Bhd.	18	18	3	3
AmMerchant Bank Berhad	7	9	-	-
AmFinance Berhad	-	4	-	-
Arab-Malaysian Credit Berhad	1	1	6	6
AmBank Berhad	-	-	28	-
	26	32	37	9
<b>Included in income due accrued (Note 7):</b>				
AmMerchant Bank Berhad	214	25	174	25
AmFinance Berhad	171	4	1,124	1,142
	385	29	1,298	1,167
<b>Included in payables (Note 9) :</b>				
Amount owing to agents/brokers, co-insurers and insureds				
AmFinance Berhad	4,763	2,460	43	60
Arab-Malaysian Credit Berhad	5	5	1	-
AmMerchant Bank Berhad	4	1	-	-
AmSecurities Sdn. Bhd.	-	-	5	-
Arab-Malaysian Corporation Berhad	-	-	10	5
AmBank Berhad	10	-	27	-
Arab-Malaysian Development Berhad	-	-	17	15
	4,782	2,466	103	80
<b>Included in amount owing to other related companies (Note 9):</b>				
AmMerchant Bank Berhad	-	-	1,083	289
AmBank Berhad	-	-	-	663
AMMB Holdings Berhad	-	-	24	-
AmFinance Berhad	91	-	124	113
	91	-	1,231	1,065

## notes to the financial statements

### 26. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTD.)

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

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>Interest income on deposits placement receivable from:</b>				
AmMerchant Bank Berhad	1,027	635	962	509
AmFinance Berhad	414	11	7,815	7,060
AmBank Berhad	-	3	-	-
	<u>1,441</u>	<u>649</u>	<u>8,777</u>	<u>7,569</u>
<b>Rental income receivable from:</b>				
AmFinance Berhad	-	-	675	62
AmBank Berhad	-	-	541	-
AmMerchant Bank Berhad	-	-	173	-
	<u>-</u>	<u>-</u>	<u>1,389</u>	<u>62</u>
<b>Commission expenses payable to:</b>				
AmFinance Berhad	12,673	11,573	4,875	5,323
AmBank Berhad	648	501	3,005	1,298
AmMerchant Bank Berhad	114	67	27	27
Arab-Malaysian Development Berhad	-	-	19	17
Arab-Malaysian Corporation Berhad	-	-	21	9
AmSecurities Sdn. Bhd.	-	-	7	7
	<u>13,435</u>	<u>12,141</u>	<u>7,954</u>	<u>6,681</u>
<b>Gross premium income earned from:</b>				
AmFinance Berhad	109,605	98,941	218	184
AmBank Berhad	4,074	3,233	137	157
AmMerchant Bank Berhad	745	416	271	272
AmSecurities Sdn. Bhd.	-	-	70	76
Arab-Malaysian Corporation Berhad	-	-	210	91
Arab-Malaysian Development Berhad	-	-	190	171
Arab-Malaysian Credit Berhad	-	-	1	-
	<u>114,424</u>	<u>102,590</u>	<u>1,097</u>	<u>951</u>

## notes to the financial statements

### 26. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTD.)

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>General and administrative expenses payable to:</b>				
Syarikat Kompleks Damai Sdn. Bhd.	731	1,361	-	173
Computer Systems Advisers (M) Berhad	1,820	758	361	404
Harpers Travel (M) Sdn. Bhd.	716	357	883	74
AmMerchant Bank Berhad	484	312	307	160
AMDB Property Management Company Sdn. Bhd.	23	40	-	-
MCM Consulting Sdn. Bhd.	77	-	-	-
	<b>3,851</b>	<b>2,828</b>	<b>1,551</b>	<b>811</b>
<b>Management fees payable to:</b>				
AmInvestment Management Sdn. Bhd.	248	239	412	362
AmTrustee Berhad	129	74	175	94
	<b>377</b>	<b>313</b>	<b>587</b>	<b>456</b>
<b>Rental expenses payable to:</b>				
Syarikat Kompleks Damai Sdn. Bhd.	193	270	394	692
AmMerchant Bank Berhad	40	40	60	30
Medan Delima Sdn. Bhd.	30	30	15	61
AmBank Berhad	12	14	153	-
AmFinance Berhad	77	9	13	8
	<b>352</b>	<b>363</b>	<b>635</b>	<b>791</b>

### 27. CAPITAL COMMITMENTS

As of 31 March 2005, capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Authorised but not contracted for:				
Property, plant and equipment	7,784	-	11,009	486
Investment properties	-	-	-	34,530
	<b>7,784</b>	<b>-</b>	<b>11,009</b>	<b>35,016</b>

## notes to the financial statements

### 27. CAPITAL COMMITMENTS (CONTD.)

	General business and shareholders' fund		Life fund	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Authorised and contracted but not provided for:				
Property, plant and equipment	1,634	629	1,143	597
Investment properties	-	-	675	11,103
	<u>1,634</u>	<u>629</u>	<u>1,818</u>	<u>11,700</u>

### 28. FINANCIAL INSTRUMENTS

#### (a) 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 rewards in order to maximise the Company's shareholders' value as well as to ensure that 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 where the 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 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.

## notes to the financial statements

### 28. FINANCIAL INSTRUMENTS (CONTD.)

#### (b) 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 behavioural 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.

#### (c) 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. The credit ratings of corporate bonds obtained from reputable rating agencies, based on their market values are as follows:

	← - - - - - Market Value - - - - - →			
	General business and shareholders' fund		Life fund	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Rating of corporate bonds on market value basis:				
AAA	49,317	21,547	80,730	40,190
AA	38,299	37,730	116,205	58,026
A	86,947	84,633	139,289	110,142
	174,563	143,910	336,224	208,358



## notes to the financial statements

### 28. FINANCIAL INSTRUMENTS (CONTD.)

#### (d) 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 rate at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

	Effective interest rate %	← - - - - - 31 March 2005 - - - - - →			
		Total RM'000	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	3.51	52,133	-	47,089	5,044
Government Investment Issues	3.73	19,179	-	9,168	10,011
Cagamas bonds	3.58	25,003	-	25,003	-
Quoted bonds of corporations	3.05	2,500	-	2,500	-
Unquoted bonds of corporations	5.92	200,312	9,965	89,537	100,810
Negotiable Instruments of Deposits	5.02	30,737	-	9,000	21,737
Fixed and call deposits	2.65	66,670	66,670	-	-
Other secured loans	4.00	1,128	283	541	304
<b>Life fund</b>					
Malaysian Government Securities	3.75	89,832	-	74,768	15,064
Government Investment Issues	4.40	5,008	-	-	5,008
Cagamas bonds	4.24	5,000	-	5,000	-
Quoted bond of corporation	3.05	5,000	-	5,000	-
Unquoted bonds of corporations	6.44	354,006	5,124	112,770	236,112
Negotiable Instruments of Deposits	5.33	17,100	5,006	-	12,094
Fixed and call deposits	5.19	172,243	72,243	-	100,000
Loans:					
Policy loans	8.00	59,459	582	41,004	17,873
Mortgage loans	4.00	8,981	439	3,832	4,710
Other secured loans	4.00	506	112	394	-
<b>Financial assets</b>					
<b>Investment-linked business</b>					
Unquoted bonds of corporations	5.80	293	-	293	-
Fixed and call deposits	2.58	1,628	1,628	-	-

## notes to the financial statements

### 28. FINANCIAL INSTRUMENTS (CONTD.)

#### (d) Interest Rate Risk (contd.)

	Effective interest rate %	← ----- 31 March 2004 ----- →			
		Total RM'000	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	-	8,890	-	8,890	-
Cagamas bonds	3.22	25,003	-	25,003	-
Quoted bonds of corporations	5.28	4,827	4,827	-	-
Unquoted bonds of corporations	3.50	173,301	3,377	70,536	99,388
Negotiable Instruments of Deposits	4.40	22,004	-	4,000	18,004
Fixed and call deposits	2.82	66,384	66,384	-	-
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
Negotiable Instruments of Deposits	4.03	8,267	-	5,016	3,251
Fixed and call deposits	4.79	229,679	129,679	-	100,000
Loans:					
Policy loans	8.00	52,016	510	36,078	15,428
Mortgage loans	4.00	8,227	712	3,453	4,062
Other secured loans	4.00	519	132	387	-
<b>Financial assets</b>					
<b>Investment-linked business</b>					
Unquoted bonds of corporations	4.93	1,202	-	1,202	-
Fixed and call deposits	2.67	740	740	-	-

#### (e) 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.

#### (f) 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.

## notes to the financial statements

### 28. FINANCIAL INSTRUMENTS (CONTD.)

#### (f) Fair Value of Financial Instruments (contd.)

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 and the corresponding fair values.

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

	← - - - - - 31 March 2005 - - - - - →			
	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	482,418	483,228	774,580	776,624
Loans	1,128	1,128	68,946	68,946
Other receivables	11,152	11,152	10,941	10,941
Cash and bank balances	6,822	6,822	9,291	9,291
Investment-linked business assets	-	-	7,602	7,602
<b>Financial liabilities</b>				
Other payables	15,680	15,680	37,052	37,052
Subordinated term loan	30,000	30,000	-	-
Investment-linked business liabilities	-	-	73	73
	← - - - - - 31 March 2004 - - - - - →			
	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	392,179	393,103	620,873	629,054
Loans	837	837	60,762	60,762
Other receivables	12,435	12,435	9,118	9,118
Cash and bank balances	10,783	10,783	12,577	12,577
Investment-linked business assets	-	-	4,561	4,561
<b>Financial liabilities</b>				
Other payables	12,789	12,789	28,433	28,433
Subordinated term loan	30,000	30,000	-	-
Investment-linked business liabilities	-	-	28	28

## notes to the financial statements

### 28. FINANCIAL INSTRUMENTS (CONTD.)

#### (f) Fair Value of Financial Instruments (contd.)

The following methods and assumptions were used to estimate the fair value of assets and liabilities as of 31 March 2005:

##### (i) 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 the 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.

##### (ii) 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.

##### (iii) 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.

##### (iv) Cash and Bank Balances

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

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 repayment.

Financial assets and liabilities that relate to rights and obligations arising from insurance contracts are not considered as they do not fall within the scope of MASB 24: Financial Instruments - Disclosure and Presentation.

### 29. COMPARATIVES

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

### 30. CURRENCY

All amounts are stated in Ringgit Malaysia.