



AmAssurance

Service 1st. Our Promise.™



ANNUAL REPORT

2006

***Warm & Friendly Service,
The Malaysian Way.™***

Our Vision

The Top Insurer Preferred For Service

- Customer 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

Our Mission

To provide insurance service to customers as simply and conveniently as possible

Five guiding principles measure the appropriateness of our decisions (The 5P's):

- Philosophy – we value clear leadership, teamwork, responsibility, accountability, commitment, integrity and ethical behaviour
- Products – we provide quality and innovative products that meet customer needs (products 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 recognise that profitability is essential in sustaining our growth



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AmAssurance Berhad

(15743-P) (Incorporated in Malaysia)

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DIRECTORS' REPORT

DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 31 March 2006.

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

	RM'000
Net profit for the year	<u>38,793</u>

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:

	RM'000
Final dividend of 10% less tax, amounting to RM7,200,000 in respect of the financial year ended 31 March 2005 declared on 27 June 2005 and paid on 28 June 2005	<u>7,200</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 March 2006 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 2007.

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)
Encik Mohamed Azmi Mahmood	(Non-independent, non-executive director)
Encik Mustafa Mohd Nor	(Non-independent, non-executive director)
Mr. Leung Hoong Kuan	(Independent, non-executive director)
Dato' James Lim Cheng Poh	(appointed on 30 June 2005) (Non-independent, non-executive director)
Dato' Zainal Azmi Zainal Ariffin	(appointed on 28 July 2005) (Independent, non-executive director)
Mr. Cheah Tek Kuang	(appointed on 3 January 2006) (Non-independent, non-executive director)
Datuk Lakshmanan Meyyappan	(appointed on 23 February 2006) (Independent, non-executive director)
Dato' Azlan Hashim	(resigned on 28 March 2006) (Non-independent, non-executive director)
Mr. Kok Tuck Cheong	(resigned on 3 January 2006) (Non-independent, non-executive director)
Mr. Sim How Chuah	(resigned on 30 June 2005) (Non-independent, non-executive director)

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.

Directors' Report

CORPORATE GOVERNANCE (CONTD.)

Board Activities

The Board currently comprises eight (8) directors with wide-ranging skills and experience. There is a balance in the Board represented by the presence of five (5) non-independent, non-executive directors and three (3) independent, non-executive director of calibre, and with necessary skills and 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 eleven (11) 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.

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 2006

Members	Number of Meetings (Attended/Held)
Tan Sri Dato' Azman Hashim (Chairman)	11/11
Encik Mohamed Azmi Mahmood	11/11
Encik Mustafa Mohd Nor	10/11
Mr. Leung Hoong Kuan	11/11
Dato' James Lim Cheng Poh (appointed on 30 June 2005)	8/8
Dato' Zainal Azmi Zainal Ariffin (appointed on 28 July 2005)	8/8
Mr. Cheah Tek Kuang (appointed on 3 January 2006)	2/3
Datuk Lakshmanan Meyyappan (appointed on 23 February 2006)	2/2
Dato' Azlan Hashim (resigned on 28 March 2006)	9/11
Mr. Kok Tuck Cheong (resigned on 3 January 2006)	8/9
Mr. Sim How Chuah (resigned on 30 June 2005)	3/3

CORPORATE GOVERNANCE (CONTD.)

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 the:

1. Nomination Committee ("NC")
2. Remuneration Committee ("RC")
3. Risk Management Committee ("RMC")
4. Audit & Examination Committee ("AEC")
5. Investment Committee ("IC")

Nomination Committee

The Committee comprises three (3) independent, non-executive directors and three (3) 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.

CORPORATE GOVERNANCE (CONTD.)

Nomination Committee (Contd.)

Membership and Meetings of the Nomination Committee For Financial Year Ended 31 March 2006

Members	Number of Meetings (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	4/4
Encik Mohamed Azmi Mahmood	4/4
Encik Mustafa Mohd Nor	3/4
Dato' Zainal Azmi Zainal Ariffin (appointed on 28 July 2005)	4/4
Mr. Cheah Tek Kuang (appointed as a member of NC on 28 March 2006)	0/0
Datuk Lakshmanan Meyyappan (appointed as a member of NC on 28 March 2006)	0/0
Mr. Kok Tuck Cheong (resigned on 3 January 2006)	2/3
Mr. Sim How Chuah (resigned on 30 June 2005)	0/0

Remuneration Committee

The Committee comprises three (3) independent, non-executive directors and three (3) 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.

CORPORATE GOVERNANCE (CONTD.)

Remuneration Committee (Contd.)

- 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 2006**

Members	Number of Meetings (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	2/2
Encik Mohamed Azmi Mahmood	2/2
Dato' Zainal Azmi Zainal Ariffin (appointed on 28 July 2005)	1/1
Dato' James Lim Cheng Poh (appointed as a member of RC on 28 March 2006)	0/0
Mr. Cheah Tek Kuang (appointed as a member of RC on 28 March 2006)	0/0
Datuk Lakshmanan Meyyappan (appointed as a member of RC on 28 March 2006)	0/0
Mr. Kok Tuck Cheong (resigned on 3 January 2006)	1/2

CORPORATE GOVERNANCE (CONTD.)

Risk Management Committee

The Committee comprises three (3) independent, non-executive directors and two (2) 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.
- 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 2006

Members	Number of Meetings (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	4/4
Encik Mohamed Azmi Mahmood	2/4
Dato' James Lim Cheng Poh (appointed on 30 June 2005)	2/2
Dato' Zainal Azmi Zainal Ariffin (appointed on 28 July 2005)	2/2
Datuk Lakshmanan Meyyappan (appointed as a member of RMC on 28 March 2006)	0/0
Encik Mustafa Mohd Nor (resigned as a member of RMC on 28 March 2006)	3/4
Dato' Azlan Hashim (resigned on 28 March 2006)	3/4
Mr. Sim How Chuah (resigned on 30 June 2005)	2/2

CORPORATE GOVERNANCE (CONTD.)

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 three (3) independent, non-executive directors and two (2) non-independent, non-executive directors.

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 2006**

Members	Number of Meetings (Attended/Held)
Mr. Leung Hoong Kuan (Chairman)	6/6
Dato' James Lim Cheng Poh (appointed on 30 June 2005)	3/4
Dato' Zainal Azmi Zainal Ariffin (appointed on 28 July 2005)	3/3
Encik Mohamed Azmi Mahmood (resigned as a member of AEC on 29 September 2005 and reappointed on 28 March 2006)	2/3
Datuk Lakshmanan Meyyappan (appointed as a member of AEC on 28 March 2006)	0/0
Dato' Azlan Hashim (resigned as a member of AEC on 29 September 2005)	3/3
Encik Mustafa Mohd Nor (resigned as a member of AEC on 29 September 2005)	2/3
Mr. Sim How Chuah (resigned on 30 June 2005)	2/2

CORPORATE GOVERNANCE (CONTD.)

Investment Committee

The Committee comprises one (1) independent, non-executive director and three (3) 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 risk management activities and the portfolio's risk exposure.

Membership and Meetings of the Investment Committee For Financial Year Ended 31 March 2006

Members	Number of Meetings (Attended/Held)
Encik Mohamed Azmi Mahmood (Chairman)	10/11
Encik Mustafa Mohd Nor	10/11
Dato' James Lim Cheng Poh (appointed as a member of IC on 28 March 2006)	0/0
Datuk Lakshmanan Meyyappan (appointed as a member of IC on 28 March 2006)	0/0
Dato' Azlan Hashim (resigned on 28 March 2006)	8/11

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:

DIRECT INTERESTS

	Number of ordinary shares of RM1.00 each			
	Balance as of 1.4.2005/Date of appointment	Bought	Sold	Balance as of 31.3.2006
AMMB Holdings Berhad (ultimate holding company)				
Tan Sri Dato' Azman Hashim	675,490	-	(675,490)	-
Encik Mohamed Azmi Mahmood	200,024	-	(30,000)	170,024
Encik Mustafa Mohd Nor	80,000	-	(80,000)	-
Mr. Cheah Tek Kuang	23,800	-	-	23,800

	No. of Warrants 2003/2008			
	Balance as of 1.4.2005/Date of appointment	Bought	Sold	Balance as of 31.3.2006
AMMB Holdings Berhad (ultimate holding company)				
Encik Mohamed Azmi Mahmood	16,083	-	-	16,083
Mr. Cheah Tek Kuang	46,189	-	-	46,189

Directors' Report

DIRECTORS' INTERESTS (CONTD.)

DIRECT INTERESTS

	Number of ordinary shares of RM1.00 each			Balance as of 31.3.2006
	Balance as of 1.4.2005/Date of appointment	Bought	Sold	
AmlInvestment Group Berhad (other related company)				
Tan Sri Dato' Azman Hashim	-	118,954,848	(24,400,000)	94,554,848
Encik Mustafa Mohd Nor	-	522,900	(22,900)	500,000
Encik Mohamed Azmi Mahmood	-	150,000	-	150,000
Mr. Cheah Tek Kuang	-	2,620,100	(1,500,000)	1,120,100
Dato' James Lim Cheng Poh	30,000	-	-	30,000
Mr. Leung Hoong Kuan	30,000	-	(30,000)	-

	No. of Renounceable Rights of RM1.00 each			Balance as of 31.3.2006
	Balance as of 1.4.2005/Date of appointment	Exercised	Lapsed	
AmlInvestment Group Berhad (other related company)				
Tan Sri Dato' Azman Hashim	118,954,848	(118,954,848)	-	-
Encik Mohamed Azmi Mahmood	96,461	(96,461)	-	-
Encik Mustafa Mohd Nor	522,923	(522,900)	(23)	-
Mr. Cheah Tek Kuang	2,620,075	(2,620,075)	-	-

DEEMED INTERESTS

AMMB Holdings Berhad (ultimate holding company)

Name of Company	No. of ordinary shares of RM1.00 each			Balance as of 31.3.2006
	Balance as of 1.4.2005	Bought	Sold	
Tan Sri Dato' Azman Hashim				
AmCorp Group Berhad (formerly known as Arab-Malaysian Corporation Berhad)	658,252,421	13,000,000	-	671,252,421
AMDB Equipment Trading Sdn Bhd	439,047	-	-	439,047
Azman Hashim Holdings Sdn Bhd	913,905	-	(913,905)	-
Regal Genius Sdn Bhd	29,490,000	-	-	29,490,000

DIRECTORS' INTERESTS (CONTD.)

DEEMED INTERESTS

AMMB Holdings Berhad
(ultimate holding company)

	Name of Company	Balance as of 1.4.2005	No. of Warrants 2003/2008		Balance as of 31.3.2006
			Bought	Sold/ Exercised	
Tan Sri Dato' Azman Hashim	AmCorp Group Berhad (formerly known as Arab-Malaysian Corporation Berhad)	5,954,097	-	-	5,954,097
	AMDB Equipment Trading Sdn Bhd	22,682	-	-	22,682
	Regal Genius Sdn Bhd	2,989,936	-	-	2,989,936
	Corporateview Sdn Bhd	31,658,738	-	-	31,658,738

AmInvestment Group Berhad
(other related company)

	Name of Company	Balance as of 1.4.2005	Number of ordinary shares of RM1.00 each		Balance as of 31.3.2006
			Bought	Sold	
Tan Sri Dato' Azman Hashim	AmCorp Group Berhad (formerly known as 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	(436,242,000)	673,200,000

DIRECTORS' INTERESTS (CONTD.)

DEEMED INTERESTS

AmInvestment Group Berhad (other related company)

	Name of Company	No. of Renounceable Rights of RM1.00 each			Balance as of 31.3.2006
		Balance as of 1.4.2005	Exercised	Lapsed	
Tan Sri Dato' Azman Hashim	AmCorp Group Berhad (formerly known as 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)	-	-

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.

None of the other directors in office at the end of the financial year had any interest in shares in the Company or its related companies during the financial year.

PROVISION FOR OUTSTANDING CLAIMS

Before the income statements and balance sheets 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.
- 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.

OTHER STATUTORY INFORMATION (CONTD.)

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; and
- ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

AUDITORS

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

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



Tan Sri Dato' Azman Hashim



Leung Hoong Kuan

Kuala Lumpur, Malaysia
30 May 2006

STATEMENT BY DIRECTORS/ STATUTORY DECLARATION

STATEMENT BY DIRECTORS

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

We, Tan Sri Dato' Azman Hashim and Leung Hoong Kuan, 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 19 to 76 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 2006 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



Leung Hoong Kuan

Kuala Lumpur, Malaysia
30 May 2006

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 19 to 76 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 30 May 2006



Ng Lian Lu

Before me,



Commissioner for Oaths



Lot 2.10, Ting. 2, Bangunan Angkasa Raya
Jalan Ampang, 50450 Kuala Lumpur

REPORT OF THE AUDITORS

REPORT OF THE AUDITORS TO THE MEMBERS OF

AmAssurance Berhad (Incorporated in Malaysia)

We have audited the accompanying financial statements set out on pages 19 to 76. 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.

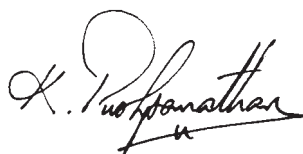
We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, 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 2006 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
30 May 2006

BALANCE SHEET

AS AT 31 MARCH 2006

	Note	2006 RM'000	2005 RM'000
ASSETS			
General business and shareholders' fund assets			
Property, plant and equipment	3	24,499	15,991
Subsidiary company	4	6,000	6,000
Investments	5	543,227	482,418
Loans	6	763	1,128
Receivables	7	38,860	44,056
Cash and bank balances		4,830	6,822
Total general business and shareholders' fund assets		618,179	556,415
Total life business assets (page 23)		1,164,751	941,375
TOTAL ASSETS		1,782,930	1,497,790
LIABILITIES			
General business and shareholders' fund liabilities			
Provision for outstanding claims	8	227,904	205,413
Payables	9	53,085	45,499
Tax liabilities		1,192	-
Amount owing to subsidiary company	4	7,565	7,565
Subordinated term loan	10	30,000	30,000
Deferred tax liabilities	11	1,526	842
Total general business and shareholders' fund liabilities		321,272	289,319
Total life business liabilities (page 23)		97,355	75,192
		418,627	364,511
INSURANCE RESERVES			
Unearned premium reserves	12	181,987	173,212
Life policyholders' fund	13	999,432	811,098
Unitholders' investment-linked fund	25	9,851	7,529
Total insurance reserves		1,191,270	991,839
SHAREHOLDERS' EQUITY			
Issued capital	14	100,000	100,000
Unappropriated profit		73,033	41,440
Shareholders' Equity		173,033	141,440
TOTAL LIABILITIES, INSURANCE RESERVES AND SHAREHOLDERS' EQUITY		1,782,930	1,497,790

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2006

	Note	Issued Capital RM'000	Distributable Unappropriated profit RM'000	Total RM'000
At 1 April 2004		100,000	25,963	125,963
Net profit for the year		-	22,677	22,677
Dividends paid:				
- final for financial year ended 31 March 2004		-	(3,600)	(3,600)
- interim for financial year ended 31 March 2005	15	-	(3,600)	(3,600)
At 31 March 2005		100,000	41,440	141,440
Net profit for the year		-	38,793	38,793
Final dividend paid for financial year ended 31 March 2005	15	-	(7,200)	(7,200)
At 31 March 2006		100,000	73,033	173,033

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

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 RM'000	2005 RM'000
Operating revenue	16	864,475	767,481
Transfers from insurance revenue accounts:			
General business		55,451	30,108
Life fund		-	2,000
		55,451	32,108
Shareholders' fund:			
Investment income	17	309	267
Net other operating expenses	18	(187)	(47)
Management expenses	19	(2)	-
		120	220
Profit before taxation		55,571	32,328
Taxation	20	(16,778)	(9,651)
Net profit for the year		38,793	22,677
Earnings per ordinary share (sen)	21	39	23

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

GENERAL INSURANCE REVENUE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2006

	Note	Fire		Motor		Marine & Aviation		Misc		Total	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Operating revenue	16									464,112	410,712
Gross premium		35,765	29,452	347,847	308,380	2,976	4,676	51,631	47,850	438,219	390,358
Reinsurance		(17,540)	(16,546)	(19,248)	(19,361)	(566)	(3,298)	(22,162)	(24,910)	(59,516)	(64,115)
Net premium		18,225	12,906	328,599	289,019	2,410	1,378	29,469	22,940	378,703	326,243
(Increase)/decrease in unearned premium reserves	12	(3,180)	(848)	(3,459)	(38,384)	(188)	283	(1,948)	(396)	(8,775)	(39,345)
Earned premium		15,045	12,058	325,140	250,635	2,222	1,661	27,521	22,544	369,928	286,898
Net claims incurred	22	(3,942)	(4,785)	(214,967)	(177,517)	(984)	255	(13,331)	(11,180)	(233,224)	(193,227)
Net commission		(1,509)	(578)	(33,041)	(27,939)	(403)	(107)	(6,284)	(4,849)	(41,237)	(33,473)
Underwriting surplus before management expenses		9,594	6,695	77,132	45,179	835	1,809	7,906	6,515	95,467	60,198
Management expenses	19									(63,189)	(50,769)
Underwriting surplus										32,278	9,429
Investment income	17									25,893	20,354
Net other operating (expenses)/ income	18									(2,713)	338
Profit from operations										55,458	30,121
Finance cost	23									(7)	(13)
Transfer to income statement										55,451	30,108

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

LIFE FUND BALANCE SHEET

AS AT 31 MARCH 2006

	Note	2006 RM'000	2005 RM'000
ASSETS			
Property, plant and equipment	3	5,485	4,388
Investments	5	1,022,936	826,953
Loans	6	77,964	68,946
Receivables	7	39,222	24,195
Cash and bank balances		9,212	9,291
Investment-linked business assets	25	9,932	7,602
Total life business assets		1,164,751	941,375
LIABILITIES			
Provision for outstanding claims	8	28,570	25,647
Payables	9	67,368	47,873
Tax liabilities		1,087	1,350
Deferred tax liabilities	11	249	249
Investment-linked business liabilities	25	81	73
Total life business liabilities		97,355	75,192
Amount due to shareholders' fund	7	58,113	47,556
Total liabilities		155,468	122,748
INSURANCE RESERVES			
Life policyholders' fund	13	999,432	811,098
Unitholders' investment linked fund	25	9,851	7,529
Total insurance reserves		1,009,283	818,627
Total life business liabilities and insurance reserves		1,164,751	941,375

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

LIFE FUND REVENUE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 RM'000	2005 RM'000
Operating revenue	16	400,054	356,502
Gross premium		340,890	312,096
Reinsurance		(28,221)	(25,107)
Net premium		312,669	286,989
Benefits paid and payable:			
Death		(24,530)	(19,595)
Maturity		(8,516)	(7,153)
Surrender		(26,537)	(20,509)
Cash bonus		(705)	(1,015)
Others		(9,619)	(9,509)
		(69,907)	(57,781)
		242,762	229,208
Commission and agency expenses		(67,635)	(58,302)
Management expenses	19	(38,529)	(34,237)
		(106,164)	(92,539)
		136,598	136,669
Investment income	17	59,164	44,406
Net other operating (expenses)/income	18	(2,901)	4,563
Surplus before taxation		192,861	185,638
Taxation	20	(4,527)	(3,945)
Surplus after taxation		188,334	181,693
Life policyholders' fund at beginning of year		811,098	631,405
		999,432	813,098
Transfer to income statement		-	(2,000)
Life policyholders' fund at end of year		999,432	811,098

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	2006	2005
	RM'000	RM'000
CASH FLOW GENERATED FROM OPERATING ACTIVITIES		
Profit before taxation	55,571	32,328
Adjustments for:		
Life fund underwriting surplus	192,861	185,638
Investment-linked surplus	2,322	3,000
Increase in unearned premium reserves	8,775	39,345
Life fund surplus transferred to income statement	-	(2,000)
Depreciation of property, plant and equipment	3,905	4,336
Accretion of discounts - net	(4,044)	(1,917)
Interest expense	7	13
Interest income	(64,171)	(47,856)
Net investment loss/(gain)	8,484	(7,644)
(Writeback)/provision for diminution in value of investments	(2,000)	3,143
Writeback of provision for doubtful debts	(872)	(255)
Rental income	(4,400)	(2,222)
Dividend income	(13,095)	(8,437)
Write off of property, plant and equipment	2	-
(Profit)/loss on disposal of property, plant and equipment	(13)	376
(Writeback)/provision for retirement benefit	(58)	55
Operating profit from operations before changes in operating assets and liabilities	183,274	197,903
Purchase of investments	(670,881)	(547,174)
Proceeds from realisation of investments	431,070	250,389
Additions to investment properties	(55,762)	(34,751)
(Increase)/decrease in assets:		
Loans	(8,717)	(8,473)
Amount owing by agents/brokers, co-insurers and reinsurers/cedants	4,677	(4,058)
Other receivables, deposits and prepayments	(11,449)	2,901
Amount owing by other related companies	(7)	(22)
Fixed and call deposits	33,964	56,261
	(93,831)	(87,024)

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

Cash Flow Statement

CASH FLOW STATEMENT (CONTD.)

	2006 RM'000	2005 RM'000
Increase/(decrease) in liabilities:		
Provision for outstanding claims	25,413	42,095
Amount owing to agents/brokers, co-insurers, insured and reinsurers/cedants	5,499	(456)
Amount owing to other related companies	1,645	258
Other payables and accrued expense	17,414	9,275
Cash used in operations	(43,860)	(35,852)
Interest received	61,315	45,411
Rental received	4,875	1,826
Dividend received	9,801	6,340
Retirement benefits paid	(7)	(71)
Interest paid	(7)	(13)
Income tax paid	(13,316)	(10,022)
Net cash generated from operating activities	18,801	7,619
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	27	221
Purchase of property, plant and equipment	(13,524)	(7,641)
Net cash used in investing activities	(13,497)	(7,420)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of finance lease payables	(179)	(242)
Dividend paid	(7,200)	(7,200)
Net cash used in financing activities	(7,379)	(7,442)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,075)	(7,243)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,119	23,362
CASH AND CASH EQUIVALENTS AT END OF YEAR	14,044	16,119
Cash and Cash equivalents comprise:		
Cash and bank balances:		
General business	4,830	6,822
Life fund	9,212	9,291
Investment-linked fund	2	6
	14,044	16,119

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

NOTES TO THE FINANCIAL STATEMENTS

- 31 MARCH 2006

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 AmAssurance, No. 1 Jalan Lumut, 50400 Kuala Lumpur.

The holding and 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 2006 was 827 (2005: 821). The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30 May 2006.

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 and Depreciation

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).

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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

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% - 20%
Furniture, fittings and renovation	10% - 20%

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 and/or revenue accounts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

d. Investments (Contd)

- (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 other than quoted corporate bonds 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. Quoted corporate bonds are valued using the method prescribed in the note above.
- (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).

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 and/or 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

j. General Insurance Underwriting Results (Contd.)

(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-basis 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 qualified independent actuary using a mathematical method of estimation.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

k. Life Insurance Underwriting Results (Contd.)

(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:

- maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- 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 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 and/or revenue accounts.

The principal exchange rate for every unit of United States Dollar ruling at balance sheet date used is RM3.68 (2005: 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, the Company makes contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement and/or revenue accounts 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.

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.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(b).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

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 Financial Reporting Standard 132 - 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 thirty days for motor business and six months for other classes of business 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

2006

	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
Cost						
At beginning of year	9,794	694	23,275	5,910	15	39,688
Additions	-	97	1,164	264	9,714	11,239
Disposals	-	(39)	-	-	-	(39)
Write off	-	-	(78)	(238)	-	(316)
Transfer	-	-	15	-	(15)	-
At end of year	9,794	752	24,376	5,936	9,714	50,572
Accumulated Depreciation						
At beginning of year	2,056	497	17,410	3,734	-	23,697
Charge for the year	196	134	1,795	605	-	2,730
Disposals	-	(39)	-	-	-	(39)
Write off	-	-	(78)	(237)	-	(315)
At end of year	2,252	592	19,127	4,102	-	26,073
Net Book Value						
At beginning of year	7,738	197	5,865	2,176	15	15,991
At end of year	7,542	160	5,249	1,834	9,714	24,499
Details at 1 April 2004						
Cost	9,794	1,126	19,861	5,173	506	36,460
Accumulated Depreciation	1,860	754	16,051	3,253	-	21,918
Depreciation charge for 2005						
	196	139	1,624	538	-	2,497

In the previous financial year, under the 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 and RM1 respectively.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Life fund

2006

	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
Cost					
At beginning of year	267	11,319	7,461	420	19,467
Additions	-	643	1,203	441	2,287
Disposals	-	(22)	-	-	(22)
Write off	-	(152)	(773)	-	(925)
At end of year	267	11,788	7,891	861	20,807
Accumulated Depreciation					
At beginning of year	160	10,004	4,915	-	15,079
Charge for the year	53	390	732	-	1,175
Disposals	-	(8)	-	-	(8)
Write off	-	(151)	(773)	-	(924)
At end of year	213	10,235	4,874	-	15,322
Net Book Value					
At beginning of year	107	1,315	2,546	420	4,388
At end of year	54	1,553	3,017	861	5,485
Details at 1 April 2004					
Cost	425	10,805	5,589	-	16,819
Accumulated Depreciation	265	9,177	4,246	-	13,688
Depreciation charge for 2005					
	53	1,116	670	-	1,839

Included in the property, plant and equipment of the Company are the costs of fully depreciated assets which are still in use as follows:

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Motor vehicles	281	88	-	-
Office equipment and computer	16,325	14,972	9,529	9,189
Furniture, fittings and renovation	2,519	1,958	3,073	3,615
	19,125	17,018	12,602	12,804

Notes to the Financial Statements

4. SUBSIDIARY COMPANY

General business and shareholders' fund

	2006 RM'000	2005 RM'000
Unquoted shares, at cost	6,000	6,000

The subsidiary company is:

	Country of incorporation	Paid-up capital RM'000	Effective Equity interest		Principal activity
			2006 %	2005 %	
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

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Malaysian Government Securities	43,068		53,094	
Amortisation of premiums net of accretion of discounts	(1,495)		(961)	
	<u>41,573</u>	<u>41,385</u>	<u>52,133</u>	<u>52,175</u>
Government investment issues	8,671		18,683	
Accretion of discounts	750		496	
	<u>9,421</u>	<u>9,317</u>	<u>19,179</u>	<u>19,179</u>

Notes to the Financial Statements

5. INVESTMENTS (CONTD.)

General business and shareholders' fund (Contd.)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Cagamas bonds	25,005		25,005	
Amortisation of premiums net of accretion of discounts	(5)		(2)	
	<u>25,000</u>	<u>24,862</u>	<u>25,003</u>	<u>25,003</u>
Shares of corporations quoted in Malaysia	48,368		64,940	
Provision for diminution in value	(146)		(2,541)	
	<u>48,222</u>	<u>51,593</u>	<u>62,399</u>	<u>62,399</u>
Quoted REITS	3,342	3,920	-	-
Unit trusts	25,025		20,006	
Provision for diminution in value	(1,047)		(521)	
	<u>23,978</u>	<u>24,900</u>	<u>19,485</u>	<u>20,202</u>
Unquoted shares of corporations	44		44	
Provision for diminution in value	(44)		(44)	
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Quoted bonds of corporations	598	586	2,500	2,550

Notes to the Financial Statements

5. INVESTMENTS (CONTD.)

General business and shareholders' fund (Contd.)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Negotiable Instruments of Deposits	82,308		30,953	
Amortisation of premiums net of accretion of discounts	(348)		(216)	
	<u>81,960</u>	<u>82,488</u>	<u>30,737</u>	<u>24,722</u>
Unquoted bonds of corporations	277,650		197,807	
Accretion of discounts net of amortisation of premiums	2,609		2,505	
	<u>280,259</u>	<u>285,912</u>	<u>200,312</u>	<u>210,857</u>
Investment-linked fund	<u>4,000</u>		<u>4,000</u>	
Fixed and call deposits with:				
Licensed banks	405		6,911	
Licensed finance companies	-		2,234	
Other corporations	24,469		57,525	
	<u>24,874</u>		<u>66,670</u>	
Total investments	<u>543,227</u>		<u>482,418</u>	

Included in fixed and call deposits are RM17,485,000 (2005: RM49,142,000) placed with other related companies with interest rates ranging from 2.0% to 3.2% per annum (2005: 2.5% to 3% per annum).

Notes to the Financial Statements

5. INVESTMENTS (CONTD.)

Life fund

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Investment properties:				
Freehold land and building	87,028		31,266	
Leasehold land and building	21,107		21,107	
	<u>108,135</u>		<u>52,373</u>	
Malaysian Government Securities	76,267		91,165	
Amortisation of premiums net of accretion of discounts	(2,119)		(1,333)	
	<u>74,148</u>	<u>74,459</u>	<u>89,832</u>	<u>90,367</u>
Government investment issues	5,008		5,008	
Amortisation of premiums net of accretion of discounts	(1)		-	
	<u>5,007</u>	<u>5,137</u>	<u>5,008</u>	<u>5,008</u>
Cagamas bonds	5,000	4,961	5,000	5,000
Shares of corporations quoted in Malaysia	85,893	88,832	102,356	102,897
Quoted REITS	5,389	6,305	-	-
Unit trusts	22,579		22,079	
Provision for diminution in value	(445)		(169)	
	<u>22,134</u>	<u>22,829</u>	<u>21,910</u>	<u>22,778</u>

Notes to the Financial Statements

5. INVESTMENTS (CONTD.)

Life fund (Contd.)

	2006		2005	
	Cost RM'000	Market value RM'000	Cost RM'000	Market value RM'000
Unquoted shares of corporations	2,147		2,147	
Provision for diminution in value	(52)		(22)	
	<u>2,095</u>		<u>2,125</u>	
Negotiable Instruments of Deposits	41,590		17,101	
Amortisation of premiums net of accretion of discounts	(89)		(1)	
	<u>41,501</u>	<u>42,198</u>	<u>17,100</u>	<u>14,322</u>
Unquoted bonds of corporations	484,826		350,468	
Accretion of discounts net of amortisation of premiums	5,056		3,538	
	<u>489,882</u>	<u>504,229</u>	<u>354,006</u>	<u>376,241</u>
Quoted bonds of corporations	5,000	4,900	5,000	5,100
Fixed and call deposits with:				
Licensed banks	123,339		17,066	
Licensed finance companies	-		101,237	
Other corporations	55,413		53,940	
	<u>178,752</u>		<u>172,243</u>	
Total investments	<u>1,022,936</u>		<u>826,953</u>	

Included in fixed and call deposits are RM132,051,000 (2005: RM146,682,000) placed with other related companies with interest rates ranging from 2.4% to 7% per annum (2005: 2.5% to 7% per annum).

Included in investment properties of the life fund are properties with a total net book value amounting to RM79,772,000 (2005: RM34,751,000), for which the title deeds are still in the process of being transferred to the Company.

Notes to the Financial Statements

6. LOANS

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Policy loans	-	-	68,353	59,459
Mortgage loans	-	-	9,616	9,392
Provisions for doubtful debts	-	-	(411)	(411)
	-	-	9,205	8,981
Other secured loans	801	1,140	546	606
Provision for doubtful debts	(38)	(12)	(140)	(100)
	763	1,128	406	506
	763	1,128	77,964	68,946
Receivables:				
- within 12 months	174	283	890	551
- after 12 months	589	845	77,074	68,395
	763	1,128	77,964	68,946

7. RECEIVABLES

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade receivables				
Outstanding premiums including agents/brokers and co-insurers balances	31,615	39,841	14,984	9,357
Provision for doubtful debts	(8,096)	(8,506)	(440)	(294)
	23,519	31,335	14,544	9,063
Amount owing by reinsurers/cedants	4,142	4,553	3,376	5,043
Provision for doubtful debts	(2,310)	(2,984)	(852)	(852)
	1,832	1,569	2,524	4,191
	25,351	32,904	17,068	13,254

Notes to the Financial Statements

7. RECEIVABLES (CONTD.)

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Other receivables				
Other receivables, deposits and prepayments	4,504	4,601	9,205	2,440
Provision for doubtful debts	(450)	(450)	-	-
	<u>4,054</u>	<u>4,151</u>	<u>9,205</u>	<u>2,440</u>
Tax recoverable	2,343	3,013	-	-
Malaysian Institute of Insurance ("MII") bonds	200	200	-	-
Income due and accrued	5,273	3,762	9,870	8,464
Amount owing by other related companies	1,639	26	3,079	37
	<u>13,509</u>	<u>11,152</u>	<u>22,154</u>	<u>10,941</u>
	<u>38,860</u>	<u>44,056</u>	<u>39,222</u>	<u>24,195</u>
Amount due from life fund	<u>58,113</u>	<u>47,556</u>		
	<u>96,973</u>	<u>91,612</u>		

In the composite balance sheet on page 19, the amount due from life fund of RM58,113,000 (2005: RM47,556,000) has been offset against the amount due to shareholders' fund in the life fund balance sheet on page 23.

Included in the amount owing by reinsurers/cedants of the general business as at 31 March 2006 are the balances for which statements from third parties have not been received amounting to RM3,868,000 (2005: 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	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Provision for outstanding claims	302,537	308,940	30,433	27,510
Recoverable from reinsurers	(74,633)	(103,527)	(1,863)	(1,863)
Net outstanding claims	227,904	205,413	28,570	25,647

9. PAYABLES

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade payables				
Amount owing to agents/ brokers, co-insurers and insureds	9,286	12,724	6,668	4,405
Amount owing to reinsurers/cedants	22,148	17,095	8,037	6,416
	31,434	29,819	14,705	10,821
Other payables				
Finance lease payables	-	179	-	-
Other payables and accrued expenses	21,619	15,410	49,727	35,821
Amount owing to other related companies	32	91	2,936	1,231
	21,651	15,680	52,663	37,052
	53,085	45,499	67,368	47,873

Notes to the Financial Statements

9. PAYABLES (CONTD.)

Included in the amount owing to reinsurers/cedants of the general business as at 31 March 2006 are balances for which statements from third parties have not been received amounting to RM2,244,000 (2005: 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.

The finance lease payables of the general business comprise the following:

	General business and shareholders' fund			
	Minimum lease payments		Present value of minimum lease payments	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Amounts payable under finance lease:				
Within one year	-	186	-	179
Less: Future finance charges	-	(7)	-	-
Present value of lease payables	-	179	-	179
Less: Amount due within 12 months			-	(179)
Non-current portion			-	-

The effective borrowing rate for the previous financial year was 1% per annum.

The above finance lease has been settled during the financial year.

Notes to the Financial Statements

10. SUBORDINATED TERM LOAN

	2006 RM'000	2005 RM'000
General business and shareholders' fund		
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.

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 single payment at the end of the period. The interest was waived with effect from 1 July 2000.

The shareholders of the Company had undertaken to subscribe to their respective entitlement under a rights issue of shares to convert or otherwise replace the loan with 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 a 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.

During the financial year, the Company obtained approval from BNM for the extension of the loan term for another 2 years, until June 2007.

11. DEFERRED TAX LIABILITIES

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
At beginning of year	(842)	(877)	(249)	(145)
Recognised in the Income Statement/Life Insurance Revenue Accounts (Note 20)	(684)	35	-	(104)
At end of year	(1,526)	(842)	(249)	(249)

Notes to the Financial Statements

11. DEFERRED TAX LIABILITIES (CONTD.)

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	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deferred tax assets	456	446	15	15
Deferred tax liabilities	(1,982)	(1,288)	(264)	(264)
	(1,526)	(842)	(249)	(249)

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

2006

Deferred Tax Assets

General business and shareholders' fund

	Provision for diminution in value of investment RM'000	Others RM'000	Total RM'000
At 1 April 2005	330	116	446
Recognised in the Income Statement	89	(79)	10
At 31 March 2006	419	37	456

Life fund

	Provision for diminution in value of investment RM'000
At 1 April 2005 and 31 March 2006	15

Notes to the Financial Statements

11. DEFERRED TAX LIABILITIES (CONTD.)

2005

Deferred Tax Assets

General business and shareholders' fund

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

2006

Deferred Tax Liabilities

General business and shareholders' fund

	Accelerated capital allowance on property, plant and equipment RM'000
At 1 April 2005	(1,288)
Recognised in the Income Statement	(694)
At 31 March 2006	(1,982)

Life fund

	Accelerated capital allowance on property, plant and equipment RM'000	Net accretion of discounts RM'000	Total RM'000
At 1 April 2005 and 31 March 2006	(88)	(176)	(264)

Notes to the Financial Statements

11. DEFERRED TAX LIABILITIES (CONTD.)

2005

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 2004	(842)	(169)	(1,011)
Recognised in the Income Statement	(446)	169	(277)
At 31 March 2005	(1,288)	-	(1,288)

Life fund

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

12. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, aviation and transit RM'000	Miscellaneous RM'000	Total RM'000
2006					
At beginning of year	7,516	151,141	546	14,009	173,212
Increase in unearned premium reserves	3,180	3,459	188	1,948	8,775
At end of year	10,696	154,600	734	15,957	181,987
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

13. LIFE POLICYHOLDERS' FUND

Based on the actuarial valuation of the fund made up to 31 March 2006, the actuary was satisfied that the assets available in the life fund are sufficient to meet its long term liabilities to policyholders.

	2006 RM'000	2005 RM'000
Actuarial liabilities:		
At beginning of year	761,630	586,179
Add: Increase in policy reserves	206,641	188,739
Bonus allocated to participating policyholders (including interim bonus) from normal surplus	10,610	9,970
Less: Interim bonus	(820)	(963)
Increase in reinsurance	(29,578)	(22,295)
	186,853	175,451
At end of year	<u>948,483</u>	<u>761,630</u>
Unallocated surplus:		
At beginning of year	49,468	45,226
Less: Deficit arising during the year	(17,487)	(6,083)
Bonus allocated to participating policyholders (including interim bonus) from normal surplus	(10,610)	(9,970)
Transfer to shareholders' fund	-	(2,000)
Add: Increase in reinsurance	29,578	22,295
	1,481	4,242
At end of year	<u>50,949</u>	<u>49,468</u>
Life policyholders' fund at end of year:		
Actuarial liabilities	948,483	761,630
Unallocated surplus	50,949	49,468
	<u>999,432</u>	<u>811,098</u>

14. SHARE CAPITAL

	2006 RM'000	2005 RM'000
Authorised:		
100,000,000 ordinary shares of RM1 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
100,000,000 ordinary shares of RM1 each	<u>100,000</u>	<u>100,000</u>

Notes to the Financial Statements

15. DIVIDENDS

	Amount		Net dividend per share	
	2006 RM'000	2005 RM'000	2006 Sen	2005 Sen
Interim paid				
5% less 28% taxation on 100,000,000 ordinary shares, declared on 20 October 2004 and paid on 26 October 2004	-	3,600	-	3.6
Proposed final				
10% (2005: 10%) less 28% taxation on 100,000,000 ordinary shares	7,200	7,200	7.2	7.2
	<u>7,200</u>	<u>10,800</u>	<u>7.2</u>	<u>10.8</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 31 March 2006 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 2007.

16. OPERATING REVENUE

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000	Total RM'000
2006				
Gross premiums	-	438,219	340,890	779,109
Investment income (Note 17)	309	25,893	59,164	85,366
	<u>309</u>	<u>464,112</u>	<u>400,054</u>	<u>864,475</u>
2005				
Gross premiums	-	390,358	312,096	702,454
Investment income (Note 17)	267	20,354	44,406	65,027
	<u>267</u>	<u>410,712</u>	<u>356,502</u>	<u>767,481</u>

Notes to the Financial Statements

17. INVESTMENT INCOME

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
2006			
Interest from:			
Malaysian Government Securities	-	2,380	4,176
Cagamas bonds	-	804	155
Unquoted corporate bonds	266	12,925	23,090
Quoted corporate bonds	-	-	153
Mortgage loans	-	-	474
Policy loans	-	-	4,969
Other loans	-	47	21
Fixed and call deposits	5	3,653	10,980
Gross dividends from:			
Shares quoted in Malaysia	41	4,087	7,685
Other investments	-	501	516
Rental income	-	-	4,400
Accretion of discounts, net of amortisation of premiums	(3)	1,496	2,545
	<u>309</u>	<u>25,893</u>	<u>59,164</u>
2005			
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
	<u>267</u>	<u>20,354</u>	<u>44,406</u>

Notes to the Financial Statements

18. NET OTHER OPERATING (EXPENSES)/INCOME

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
2006			
Profit on disposal of property, plant and equipment	-	13	-
Write off of property, plant and equipment	-	(1)	(1)
Realised loss on foreign exchange	-	-	(12)
(Loss)/profit on disposal of investment in:			
Quoted shares	-	(8,044)	(6,556)
Unquoted corporate bonds	(2)	2,579	3,974
Unit trust	-	13	-
Sundry income	-	693	-
Writeback of/(provision for) diminution in value of investment:			
Quoted shares	61	2,334	-
Unquoted shares	-	-	(30)
Other investments	(227)	(299)	(276)
Sundry expenditure	(19)	(1)	-
	<u>(187)</u>	<u>(2,713)</u>	<u>(2,901)</u>
2005			
(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)	-
	<u>(47)</u>	<u>338</u>	<u>4,563</u>

Notes to the Financial Statements

19. MANAGEMENT EXPENSES

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
2006			
Staff costs			
Directors' remuneration (Note (a))	-	251	157
Chief Executive Officer's ("CEO") remuneration (Note (a))	-	656	438
Wages, salaries and bonuses	-	22,278	14,529
Contributions to EPF	-	3,415	2,261
Other employee benefits	-	1,957	1,433
	-	<u>28,557</u>	<u>18,818</u>
Writeback of provision for doubtful debts	-	(1,058)	-
Bad debts written off	-	476	-
Provisions for doubtful debts	-	-	186
Auditors' remuneration	2	78	50
Rental of office from third parties	-	830	1,197
Rental of office from other related companies	-	298	1,174
Depreciation of property, plant and equipment	-	2,730	1,175
IGSF levies	-	1,000	-
Other expenses	-	30,278	15,929
	<u>2</u>	<u>34,632</u>	<u>19,711</u>
	<u>2</u>	<u>63,189</u>	<u>38,529</u>

Notes to the Financial Statements

19. MANAGEMENT EXPENSES (CONTD.)

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000
2005			
Staff costs			
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
	-	<u>24,170</u>	<u>16,403</u>
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	1,055
Rental of office from other related companies	-	352	1,015
Depreciation of property, plant and equipment	-	2,497	1,839
IGSF levies	-	847	-
Other expenses	-	22,107	14,278
	-	<u>26,599</u>	<u>17,834</u>
	-	<u>50,769</u>	<u>34,237</u>

Notes to the Financial Statements

19. MANAGEMENT EXPENSES (CONTD.)

a. Directors' and CEO Remuneration

	General business		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Non-executive directors:				
Fees	156	156	104	104
Allowances and other emoluments	95	109	53	74
	<u>251</u>	<u>265</u>	<u>157</u>	<u>178</u>

The remuneration including benefits-in-kind, attributable to the CEO of the Company during the year amounted to RM1,094,000 (2005: RM924,000).

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

	Number of directors	
	2006	2005
Non-executive directors:		
Below RM50,000	6	2
RM50,001 - RM100,000	5	6

20. TAXATION

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Tax expense for the year	16,094	9,686	4,527	3,841
Deferred tax relating to origination and reversal of temporary differences (Note 11)	684	(35)	-	104
	<u>16,778</u>	<u>9,651</u>	<u>4,527</u>	<u>3,945</u>

Notes to the Financial Statements

20. TAXATION (CONTD.)

Domestic income tax for general business and shareholders' fund is calculated at the Malaysian statutory rate of 28% (2005: 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:

a. General business and shareholder's fund:

	2006 RM'000	2005 RM'000
Profit before tax	55,571	32,328
Taxation at Malaysian statutory tax rate of 28%	15,560	9,052
Income not subject to tax	-	(103)
Expenses not deductible for tax purposes	1,218	702
Tax expense for the year	16,778	9,651

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:

	2006 RM'000	2005 RM'000
Surplus before taxation	192,861	185,638
Taxation at Malaysian tax charge of 8%	15,429	14,851
Income not subject to tax	(25,021)	(23,039)
Expenses not deductible for tax purposes	14,119	12,133
Tax expense for the year	4,527	3,945

Notes to the Financial Statements

20. TAXATION (CONTD.)

As of 31 March 2006, the Company has tax exempt account balance amounting to about RM9,364,000 (2005: 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 2006 without additional tax liability being incurred.

21. EARNINGS PER ORDINARY SHARE

	2006	2005
Basic		
Net profit attributable to ordinary shareholders (RM'000)	38,793	22,677
Number of ordinary shares of RM1 each ('000)	100,000	100,000
Basic earnings per share (sen)	39	23

22. NET CLAIMS INCURRED

	Fire		Motor		Marine & Aviation		Misc		Total	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Gross claims paid less salvage	8,777	7,380	205,099	150,338	856	1,378	24,205	22,914	238,937	182,010
Reinsurance recoveries	(4,178)	(3,476)	(12,475)	(9,475)	(261)	(500)	(11,290)	(10,540)	(28,204)	(23,991)
Net claims paid	4,599	3,904	192,624	140,863	595	878	12,915	12,374	210,733	158,019
Net outstanding claims:										
At end of year	5,195	5,852	199,070	176,727	2,585	2,196	21,054	20,638	227,904	205,413
At beginning of year	(5,852)	(4,971)	(176,727)	(140,073)	(2,196)	(3,329)	(20,638)	(21,832)	(205,413)	(170,205)
	(657)	881	22,343	36,654	389	(1,133)	416	(1,194)	22,491	35,208
Net claims incurred	3,942	4,785	214,967	177,517	984	(255)	13,331	11,180	233,224	193,227

Notes to the Financial Statements

23. FINANCE COSTS

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest on finance lease	7	13	-	-

24. CASH FLOW INFORMATION BY SEGMENT

	Shareholders' fund RM'000	General business RM'000	Life fund RM'000	Total RM'000
2006				
Cash flows from/(used in):				
Operating activities	7,200	9,411	2,190	18,801
Investing activities	-	(11,224)	(2,273)	(13,497)
Financing activities	(7,200)	(179)	-	(7,379)
Net decrease in cash and cash equivalents	-	(1,992)	(83)	(2,075)
Cash and cash equivalents:				
At beginning of year	-	6,822	9,297	16,119
At end of year	-	4,830	9,214	14,044
2005				
Operating activities	7,200	655	(236)	7,619
Investing activities	-	(4,374)	(3,046)	(7,420)
Financing activities	(7,200)	(242)	-	(7,442)
Net decrease 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

Notes to the Financial Statements

25. INVESTMENT-LINKED BUSINESS

BALANCE SHEET AS AT 31 MARCH 2006

	Note	2006 RM'000	2005 RM'000
ASSETS			
Investments	(a)	9,831	7,456
Amount due from Life Fund		-	40
Amount due from brokers		6	76
Tax recoverable		53	12
Deferred tax asset	(b)	20	-
Other receivables		20	12
Cash and bank balances		2	6
		9,932	7,602
LIABILITIES			
Amount due to Life Fund		3	-
Provision for taxation		2	-
Deferred tax liabilities	(b)	18	-
Other payables		58	73
		81	73
NET ASSET VALUE OF FUNDS		9,851	7,529
REPRESENTED BY: UNITHOLDERS' ACCOUNT		9,851	7,529

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 RM'000	2005 RM'000
Gross premium/creation of units		2,638	3,521
Benefits paid and payable/cancellation of units		(611)	(186)
		2,027	3,335
Management expenses		(36)	(34)
Net investment income	(c)	344	199
Loss on disposal of investment in quoted shares		(449)	(263)
Unrealised capital gain/(loss)		436	(237)
		2,322	3,000
Income tax expense	(d)	-	(4)
Surplus after tax		2,322	2,996
Unitholders' account at beginning of year		7,529	4,533
Unitholders' account at end of year		9,851	7,529

Notes to the Financial Statements

25. INVESTMENT-LINKED BUSINESS (CONTD.)

a. Investments

	2006 Cost/Market Value RM'000	2005 Cost/Market Value RM'000
Shares of corporations quoted in Malaysia		
At cost	4,009	3,868
Unrealised gain/(loss)	172	(230)
At market value	<u>4,181</u>	<u>3,638</u>
Unquoted bonds of corporations		
At cost	669	285
Accretion of discounts	15	8
Unrealised gain	18	-
At market value	<u>702</u>	<u>293</u>
Quoted REITS		
At cost	18	-
Unrealised loss	(1)	-
At market value	17	-
Unit trusts		
At cost	1,957	1,890
Unrealised gain	23	7
At market value	<u>1,980</u>	<u>1,897</u>
Fixed and call deposits with licensed banks	<u>2,951</u>	<u>1,628</u>
Total investments by Investment-linked business	<u>9,831</u>	<u>7,456</u>

b. Deferred tax

	2006 RM'000	2005 RM'000
At beginning of year	-	-
Recognised in the income statement (Note (d))		
Deferred tax asset	20	-
Deferred tax liabilities	(18)	-
At end of year	<u>2</u>	<u>-</u>

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.

Notes to the Financial Statements

25. INVESTMENT-LINKED BUSINESS (CONTD.)

b. Deferred tax (contd.)

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

Deferred tax assets

	Tax losses RM'000
At 1 April 2005	-
Recognised in the income statement	20
At 31 March 2006	20

Deferred tax liabilities

	Net unrealised gain RM'000	Net accretion of discounts RM'000	Total RM'000
At 1 April 2005	-	-	-
Recognised in the income statement	(17)	(1)	(18)
At 31 March 2006	(17)	(1)	(18)

c. Net investment income

	2006 RM'000	2005 RM'000
Interest from:		
Unquoted corporate bonds	14	21
Fixed and call deposits	59	38
Gross dividends from:		
Shares quoted in Malaysia	264	70
Other investments	-	54
Accretion of discounts, net	7	16
	344	199

Notes to the Financial Statements

25. INVESTMENT-LINKED BUSINESS (CONTD.)

d. Taxation

	2006 RM'000	2005 RM'000
Tax expense for the year		
Malaysian income tax	2	4
Deferred tax (Note (b)):		
Relating to origination and reversal of temporary differences	15	-
Deferred tax not recognised in prior year	(17)	-
	(2)	-
	-	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:

	2006 RM'000	2005 RM'000
Surplus before tax	2,322	3,000
Taxation at Malaysian statutory tax rate of 8%	186	240
Income not subject to tax	(220)	(277)
Expenses not deductible for tax purposes	51	41
Deferred tax not recognised in prior year	(17)	-
Tax expense for the year	-	4

Notes to the Financial Statements

26. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The related parties and their relationship with the Company as of 31 March 2006 are as follows:

Name	Relationship
AMMB Holdings Berhad	Ultimate holding company
AmMerchant Bank Berhad	Other related company
AMFB Holdings Berhad	Other related company
AmBank (M) 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
AmCorp Group Berhad (formerly known as Arab-Malaysian Corporation Berhad)	A corporate shareholder of ultimate holding company
AMDB Berhad	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, Dato' Azlan Hashim, have financial interests
Syarikat Kompleks Damai Sdn. Bhd.	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, Dato' Azlan Hashim, have financial interests
Harpers Travel (M) Sdn. Bhd.	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, 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 Sdn. Bhd.	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, Dato' Azlan Hashim, have financial interests
Medan Delima Sdn. Bhd.	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, Dato' Azlan Hashim, have financial interests
MCM Consulting Sdn. Bhd.	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, Dato' Azlan Hashim, have financial interests
MCM Horizon Sdn. Bhd.	Company in which a director, Tan Sri Dato' Azman Hashim and a past director, Dato' Azlan Hashim, have financial interests

Notes to the Financial Statements

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

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	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Included in receivables (Note 7):				
Outstanding premium				
including agents/brokers				
and co-insurers balances				
AmFinance Berhad	-	1,369	-	4
AmBank (M) Berhad	3,386	1,298	486	503
AmCorp Group Berhad	-	-	7	7
AmSecurities Sdn. Bhd.	-	-	74	-
AmMerchant Bank Berhad	630	366	291	5
	<u>4,016</u>	<u>3,033</u>	<u>858</u>	<u>519</u>
Included in amount owing by other related companies (Note 7):				
AmSecurities Sdn. Bhd.	1,596	18	3,073	3
AmMerchant Bank Berhad	35	7	-	-
Arab-Malaysian Credit Berhad	-	1	6	6
AmBank (M) Berhad	8	-	-	28
	<u>1,639</u>	<u>26</u>	<u>3,079</u>	<u>37</u>
Included in income due and accrued (Note 7):				
AmMerchant Bank Berhad	202	214	163	174
AmFinance Berhad	-	171	-	1,124
AmBank (M) Berhad	169	-	1,124	-
	<u>371</u>	<u>385</u>	<u>1,287</u>	<u>1,298</u>

Notes to the Financial Statements

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

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Included in payables (Note 9):				
Amount owing to agents/ brokers, co-insurers and insureds				
AmFinance Berhad	-	4,763	-	43
Arab-Malaysian Credit Berhad	5	5	-	1
AmMerchant Bank Berhad	6	4	-	-
AmSecurities Sdn. Bhd.	-	-	5	5
AmCorp Group Berhad	-	-	123	10
AmBank (M) Berhad	4,497	10	296	27
AMDB Berhad	-	-	19	17
	4,508	4,782	443	103
Included in amount owing to other related companies (Note 9):				
AmMerchant Bank Berhad	-	-	1,226	1,083
AmBank (M) Berhad	-	-	1,710	-
AMMB Holdings Berhad	-	-	-	24
AmFinance Berhad	32	91	-	124
	32	91	2,936	1,231

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

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest income receivable from:				
AmMerchant Bank Berhad	1,480	1,027	1,632	962
AmFinance Berhad	-	414	-	7,815
AmBank (M) Berhad	409	-	7,628	-
	1,889	1,441	9,260	8,777
Rental income receivable from:				
AmFinance Berhad	-	-	-	675
AmBank (M) Berhad	-	-	3,366	541
AmMerchant Bank Berhad	-	-	269	173
Syarikat Kompleks Damai Sdn. Bhd.	-	-	333	-
	-	-	3,968	1,389

Notes to the Financial Statements

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

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Commission expenses payable to:				
AmFinance Berhad	-	12,673	-	4,875
AmBank (M) Berhad	16,943	648	10,270	3,005
AmMerchant Bank Berhad	175	114	-	27
AMDB Berhad	-	-	8	19
AmCorp Group Berhad	-	-	7	21
AmSecurities Sdn. Bhd.	1	-	19	7
	<u>17,119</u>	<u>13,435</u>	<u>10,304</u>	<u>7,954</u>
Gross premium income earned from:				
AmFinance Berhad	-	109,605	-	218
AmBank (M) Berhad	144,704	4,074	74	137
AmMerchant Bank Berhad	1,141	745	-	271
AmSecurities Sdn. Bhd.	6	-	81	70
AmCorp Group Berhad	-	-	75	210
AMDB Berhad	-	-	186	190
Arab-Malaysian Credit Berhad	-	-	-	1
	<u>145,851</u>	<u>114,424</u>	<u>416</u>	<u>1,097</u>

Notes to the Financial Statements

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

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
General and administrative				
expenses payable to:				
Syarikat Kompleks Damai Sdn. Bhd.	-	731	-	-
Computer Systems				
Advisers (M) Berhad	555	1,820	321	361
Harpers Travel (M) Sdn. Bhd.	472	716	203	883
AmMerchant Bank Berhad	537	484	394	307
AMDB Property				
Management Company Sdn. Bhd.	-	23	96	4
Melawangi Sdn. Bhd.	-	-	331	210
MCM Consulting Sdn. Bhd.	-	77	-	-
	1,564	3,851	1,345	1,765
Purchases of buildings & other assets:				
Syarikat Kompleks				
Damai Sdn. Bhd.	-	-	54,109	-
MCM Horizon Sdn. Bhd.	6,815	-	-	-
	6,815	-	54,109	-
Management fees payable to:				
AmInvestment Management Sdn. Bhd.	245	248	407	412
AmTrustee Berhad	136	129	205	175
	381	377	612	587
Rental expenses payable to:				
Syarikat Kompleks				
Damai Sdn. Bhd.	182	193	931	774
AmMerchant Bank Berhad	39	40	64	60
Medan Delima Sdn. Bhd.	-	30	96	15
AmBank (M) Berhad	77	12	94	153
AmFinance Berhad	-	77	-	13
	298	352	1,185	1,015

Notes to the Financial Statements

27. CAPITAL COMMITMENTS

As of 31 March 2006, capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	General business and shareholders' fund		Life fund	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Authorised but not contracted for: Property, plant and equipment	-	7,784	-	11,009
Authorised and contracted but not provided for: Property, plant and equipment	3,215	1,634	6,603	1,143
Investment properties	-	-	675	675
	<u>3,215</u>	<u>1,634</u>	<u>7,278</u>	<u>1,818</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, credit, interest rate and liquidity risks. 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	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Rating of corporate bonds on market value basis:				
AAA	61,569	49,317	119,693	80,730
AA	51,892	38,299	144,611	116,205
A	129,808	86,947	217,743	139,289
Non-rated	42,643	36,294	22,182	40,017
	285,912	210,857	504,229	376,241

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 2006			
		Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
Financial assets					
General and shareholders' fund					
Malaysian Government Securities	3.37	41,573	5,718	30,815	5,040
Government Investment Issues	3.00	9,421	-	9,421	-
Cagamas bonds	3.22	25,000	10,000	15,000	-
Quoted bonds of corporations	3.05	598	-	598	-
Unquoted bonds of corporations	6.06	280,259	12,227	117,016	151,016
Negotiable Instruments of Deposits	4.44	81,960	-	72,995	8,965
Fixed and call deposits	2.89	24,874	24,874	-	-
Other secured loans	4.00	763	174	589	-
Life fund					
Malaysian Government Securities	3.73	74,148	10,242	53,844	10,062
Government Investment Issues	4.40	5,007	-	-	5,007
Cagamas bonds	3.12	5,000	-	5,000	-
Quoted bond of corporation	3.05	5,000	-	5,000	-
Unquoted bonds of corporations	6.36	489,882	18,471	178,050	293,361
Negotiable Instruments of Deposits	4.68	41,501	-	32,536	8,965
Fixed and call deposits	5.11	178,752	78,752	-	100,000
Loans:					
Policy loans	8.00	68,353	-	-	68,353
Mortgage loans	4.00	9,205	743	3,711	4,751
Other secured loans	4.00	406	147	259	-
Financial assets					
Investment-linked business					
Unquoted bonds of corporations	5.28	702	-	702	-
Fixed and call deposits	3.16	2,951	2,951	-	-

Notes to the Financial Statements

28. FINANCIAL INSTRUMENTS (CONTD.)

d. Interest Rate Risk (Contd.)

	Effective interest rate %	31 March 2005			
		Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
Financial assets					
General and shareholders' fund					
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
Life Fund					
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	-	-	59,459
Mortgage loans	4.00	8,981	439	3,832	4,710
Other secured loans	4.00	506	112	394	-
Financial assets					
Investment-linked business					
Unquoted bonds of corporations	5.80	293	-	293	-
Fixed and call deposits	2.58	1,628	1,628	-	-

28. FINANCIAL INSTRUMENTS (CONTD.)

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.

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.

Notes to the Financial Statements

28. FINANCIAL INSTRUMENTS (CONTD.)

f. Fair Value of Financial Instruments (Contd.)

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

	31 March 2006			
	General business and shareholders' fund		Life fund	
	Carrying Value RM'000	Estimated fair value RM'000	Carrying Value RM'000	Estimated fair value RM'000
Financial assets				
Investments	543,227	553,837	914,801	934,697
Loans	763	763	77,964	77,964
Other receivables	13,509	13,509	22,154	22,154
Cash and bank balances	4,830	4,830	9,212	9,212
Investment-linked business assets	-	-	9,932	9,932
Financial liabilities				
Other payables	21,651	21,651	52,663	52,663
Subordinated term loan	30,000	30,000	-	-
Investment-linked business liabilities	-	-	81	81
	31 March 2005			
	General business and shareholders' fund		Life fund	
	Carrying Value RM'000	Estimated fair value RM'000	Carrying Value RM'000	Estimated fair value RM'000
Financial assets				
Investments	482,418	487,757	774,580	796,081
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
Financial liabilities				
Other payables	15,680	15,680	37,052	37,052
Subordinated term loan	30,000	30,000	-	-
Investment-linked business liabilities	-	-	73	73

Notes to the Financial Statements

28. FINANCIAL INSTRUMENTS (CONTD.)

The following methods and assumptions were used to estimate the fair value of assets and liabilities as of 31 March 2006:

(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 FRS 132: Financial Instruments - Disclosure and Presentation.

29. CURRENCY

All amounts are stated in Ringgit Malaysia.

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