PACIFIC & ORIENT INSURANCE CO. BERHAD

(12557-W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

For Financial Year Ended 30 September 2007

PACIFIC & ORIENT INSURANCE CO. BERHAD
Company No: 12557 W
(Incorporated in Malaysia)

CONTENTS

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 30 September 2007.

PRINCIPAL ACTIVITY

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

There have been no significant changes in the nature of this activity during the financial year.

RESULTS

	RM'000
Net profit for the year	21,156

DIVIDEND

Since 30 September 2006, the Company had on 15 March 2007, paid a 1st interim dividend of 16.44 sen per share less tax at 27% amounting to RM12,000,000 in respect of the financial year ended 30 September 2007.

In respect of financial year ended 30 September 2007, the Directors had on 28 November 2007 declared a 2nd interim dividend of 10.81 sen per share less tax at 26% amounting to RM8,000,000. The dividend will be paid on 5 December 2007. This dividend has not been reflected in the financial statements for the current financial year but it will be accounted for in equity as an appropriation of retained profits for the financial year ending 30 September 2008.

The Directors do not recommend the payment of any final dividend for the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

PROVISION FOR OUTSTANDING CLAIMS

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

BAD AND DOUBTFUL DEBTS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would require any amount to be written off as bad debts or render the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ensure that any current assets, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

DIRECTORS

The Directors in office since the date of the last report are:

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth
Mr. Chan Thye Seng
Mr. Michael Yee Kim Shing
Y.Bhg. Dato' Abu Hanifah Bin Noordin
En. Abdul Rahman Bin Talib
Mr. Ong Eng Soon

In accordance with Section 129(2) of the Companies Act, 1965, Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth and Mr. Michael Yee Kim Shing retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

In accordance with Article 75 of the Company's Articles of Association**,** Mr. Chan Thye Seng retires from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the share options granted to eligible Directors pursuant to the Employee Share Options Scheme (ESOS) of the holding company.

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 or the fixed salary as a full-time employee of the Company as shown in Notes 21 and 22 to the financial statements) 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 of the Company and its related corporations during the financial year were as follows:

	Number of Ordinary Shares of RM1.00 Each				
The Company	As at 1 October 2006	Bought	Share Dividend*	Sold	As at 30 September 2007
Mr. Chan Thye Seng					
- Indirect interest	100,000,000	-	-	-	100,000,000
Pacific & Orient Berhad (Holding Company)					
Mr. Chan Thye Seng					
- Direct interest	8,210,725	1,526,800	475,888	-	10,213,413
- Indirect interest	51,669,047	477,600	2,969,595	740,000	54,376,242
Mr. Michael Yee Kim Shing					
- Indirect interest	970,266	**3,453	54,379	65,000	963,098
Y.Bhg. Dato' Abu Hanifah Bin Noordin					
- Indirect interest	2,300,137	-	129,142	146,000	2,283,279

* This represents two distributions of treasury shares by the holding company as share dividends on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 4 January 2007 and 13 June 2007 respectively.

** This represents an adjustment as a consequence of Section 134 (12) (c) of the Companies Act,1965, which came into force on 15 August 2007.

DIRECTORS' INTERESTS (Cont'd)

In addition to the above, the following Directors are deemed to have an interest in the shares of the Company to the extent of the ESOS granted to them by the holding company on 5 April 2003:

	Number of Share Options Under ESOS of RM1.00 Each				
Names of option holders	Exercise Price RM	As at 1 October 2006	Granted	Exercised	As at 30 September 2007
Mr. Chan Thye Seng	1.27	900,000	-	-	900,000
En. Abdul Rahman Bin Talib	1.27	850,000	-	-	850,000
Mr. Ong Eng Soon	1.27	850,000	-	-	850,000

Mr. Chan Thye Seng, by virtue of his interest in the holding company, is deemed to have an interest in the shares of all the subsidiary companies within the Pacific & Orient Berhad Group to the extent the holding company has an interest.

Other than as stated above, none of the Directors who were in office at the end of the financial year had any interest in the shares of the Company or its related corporations during the financial year.

CORPORATE GOVERNANCE

The Board and management have considered Bank Negara Malaysia's (BNM) 'Prudential Framework of Corporate Governance for Insurers' ("the Framework") [(JPI/GPI 25 (Consolidated)] and reviewed the state of the Company's corporate governance structures and procedures. They are of the opinion that the Company has generally complied with all the prescriptive requirements of the Framework.

Board Responsibilities

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Insurance Act 1996, Insurance Regulations 1996 and BNM guidelines JPI/GPI 1 (Consolidated) Minimum Standards for Prudential Management of Insurers and JPI/GPI 25 (Consolidated) and other directives, in addition to adopting other best practices on corporate governance.

Board Composition, Attendance and Meetings

As at 30 September 2007, the Board comprises six directors with wide-ranging skills and experience. There is a balance in the Board represented by the presence of two Non-Independent Executive Directors, three Independent Non-Executive Directors and one Non-Independent, Non-Executive Director. During the financial year, the attendance of the Directors at the Board meetings was as follows:

Board Composition, Attendance and Meetings (Cont'd)

	Attendance
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Chairman) Independent, Non-Executive Director	7/7
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	7/7
Mr. Michael Yee Kim Shing Independent, Non-Executive Director	7/7
Y.Bhg. Dato' Abu Hanifah Bin Noordin Independent, Non-Executive Director	6/7
En. Abdul Rahman Bin Talib Non-Independent Director, Chief Executive Officer	7/7
Mr. Ong Eng Soon Non-Independent, Executive Director	7/7

In furtherance of its duties, the Board has delegated specific responsibilities to four Board Committees:

(a) Audit Committee
(b) Nominating Committee
(c) Remuneration Committee
(d) Risk Management Committee

The above Committees have the authority to examine pertinent issues and report back to the Board with their recommendations. The ultimate responsibilities for the final decision on all matters lie with the Board.

Directors' Responsibility Statement

The Directors are required by the Companies Act, 1965 to prepare financial statements for each year which have been made out in accordance with the applicable Financial Reporting Standards in Malaysia and give a true and fair view of the financial position of the Company at the end of the year and of the results and cash flows of the Company for the year.

The Directors have the responsibility for ensuring that the Company keeps accounting records that disclose with reasonable accuracy their financial position and which enable them to ensure that the financial statements comply with the Companies Act, 1965, the Insurance Act, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia.

The Directors have the overall responsibility for taking such steps as reasonably open to them to safeguard the assets of the Company and to prevent and to detect fraud and other irregularities.

Management Accountability

The Company has in place a documented and updated organisation structure with clear reporting lines and job description for management and executive employees. In addition, there are also well documented policies and procedures in the operating manuals for all major functions within the Company.

Corporate Independence

Related party transactions, if any, are disclosed to the Board and they are on terms and conditions no more favourable than those available for similar transactions to the Company's other customers.

Internal Control and Enterprise Risk Management

The Board acknowledges its responsibilities over the system of internal controls, which includes financial controls, operational and compliance controls maintained by the Company that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures and guidelines. The Board is assisted by the Audit Committee to review audit issues concerning internal controls identified by the Internal Audit Department, external auditor and regulatory examiners and to oversee the financial reporting processes and the quality of financial reporting of the Company. All aspects of the system of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

The Board regards risk management as an integral part of the Company's business operations and has accordingly implemented an enterprise risk management across the Company. In this respect, the Company has established a risk management framework and has in place an ongoing process of identifying, evaluating, managing and reporting of significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report.

To further strengthen the risk management process, a Risk Management Committee has been established which meets regularly to oversee the development of risk management policies and procedures, monitor and evaluate the numerous risks that may arise from the business activities. A Risk Review Working Committee is also established to assist the Risk Management Committee to discharge its duties. The Risk Management Committee receives regular reports from the Risk Review Working Committee, which in turn receives regular information on risks from the respective risk owners.

Board Committees

1. Audit Committee

The attendance of the members at the Audit Committee meetings was as follows:

Membership:	Attendance
Mr. Michael Yee Kim Shing (Chairman)	5/5
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	5/5
Y.Bhg. Dato' Abu Hanifah Bin Noordin	5/5

Functions and Duties

(i) To review and recommend for the Board's approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the internal audit function in the Company.

(ii) To review the following and report to the Board:

(a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors' reports, management letters and liaison with Internal Audit.

(b) The internal audit plan of work program, including the appropriateness of the risk management methodology employed to determine the frequency and scope of audit.

(c) Independence and reporting relationships of the internal audit function as well as the adequacy and relevance of the scope, functions and resources and the necessary authority to carry out its work. The Audit Committee ensures that the highest quality and compliance standards on internal auditing are adhered to and that all findings, including those arising from specific investigations, are resolved on a timely basis.

(d) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The Audit Committee also reviews the disclosure in the Directors' Report on the manner in which applications of JPI/GPI 25 (Consolidated) principles through prescriptive applications and best practice standards have been achieved.

(e) The propriety of any related party transaction and conflict of interest situation that may arise within the Company, including any transaction, procedure or course of conduct that may raise questions of management integrity.

Board Committees (Cont'd)

1. Audit Committee (Cont'd)

Functions and Duties (Cont'd)

(iii) To prepare the Audit Committee Report for submission to BNM, not later than 31 January of each year covering the composition of the Committee, number of meetings held and attendance thereon, as well as the activities undertaken by the Audit Committee and Internal Audit function during the year.

(iv) To perform any other work required or empowered by statutory legislation or guidelines issued by the relevant government or regulatory authorities.

2. Nominating Committee

The attendance of the members at the Nominating Committee meetings was as follows:

Membership:	Attendance
Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)	2/2
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	2/2
Mr. Chan Thye Seng	2/2
Mr. Michael Yee Kim Shing	2/2
En. Abdul Rahman Bin Talib	2/2

Functions and Duties

(i) To oversee, via an annual review, the overall composition of the Board in terms of number of directors, the balance between Executive, Non-Executive and Independent Directors, mix of skills, expertise and experience, and other core competencies required.

(ii) To recommend and assess the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Chief Executive Officer position.

(iii) To establish a mechanism for the formal assessment of the effectiveness of the Board as a whole, the contributions of each Director to the effectiveness of the Board, as well as the contribution of the various Board committees and the performance of the Chief Executive Officer. These assessments are carried out on an annual basis.

(iv) To make recommendation to the Board on the removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.

Board Committees (Cont'd)

2. Nominating Committee (Cont'd.)

(v) To identify and recommend suitable programmes to ensure all Directors receive continuous training or enhancement of knowledge particularly pertaining to regulatory developments from time to time.

(vi) To oversee the appointment, management succession planning and performance evaluation of key senior officers, and recommend to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

In the opinion of the Committee, the Board of Directors of the Company has the mix of skills, experience and other qualities appropriate to the needs of the Company.

3. Remuneration Committee

The attendance of the members at the Remuneration Committee meetings was as follows:

Membership:	Attendance
Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)	1/1
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	1/1
Mr. Chan Thye Seng	1/1
Mr. Michael Yee Kim Shing	1/1

Functions and Duties

(i) To determine and recommend for approval of the Board, the framework or broad policies relating to terms of employment and remuneration of the Non-Executive Directors, Chief Executive Officer and Executive Director. The framework/policies are consistent with the requirements of JPI/GPI 1 (Consolidated).

(ii) To recommend to the Board the remuneration packages for the Chief Executive Officer and Executive Director. The remuneration packages for Chief Executive Officer and Executive Director are structured such that they link rewards to corporate and individual performances to encourage high performance standards.

(iii) To review and recommend to the Board the remuneration of the Non-Executive Directors within the limits set by the shareholders. A Non-Executive Director shall abstain from discussions relating to his remuneration. The remuneration of a Non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

4. Risk Management Committee

The attendance of the members at the Risk Management Committee meetings was as follows:

Membership:

	Attendance
Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)	3/4
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	4/4
Mr. Chan Thye Seng	4/4
Mr. Michael Yee Kim Shing	4/4

Risk Management Framework

The Risk Management Committee was established to oversee the formulation of an effective enterprise risk management framework and to monitor risk management activities.

In accordance with the risk management framework, a Risk Review Working Committee was established to assist the Risk Management Committee in identifying, assessing and monitoring risks faced by all business units, departments as well as to ensure that the risk management process is in place and functioning effectively on a continuing basis.

Functions and Duties

(i) To review and recommend risk management strategies, policies and risk tolerance limits for the Board's approval.

(ii) To review and assess 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.

(iii) To ensure 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 Company's risk taking activities.

(iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

HOLDING AND ULTIMATE HOLDING COMPANY

The Directors regard Pacific & Orient Berhad, a company incorporated in Malaysia, as the holding and ultimate holding company.

AUDITORS

Ernst & Young retire and have indicated their willingness to accept re-appointment.

Signed on behalf of the Board
in accordance with a resolution
of the Directors dated 29 November 2007

GEN (R) TAN SRI DATO' MOHD GHAZALI BIN DATO' MOHD SETH	ABDUL RAHMAN BIN TALIB

Kuala Lumpur

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, GEN (R) TAN SRI DATO' MOHD GHAZALI BIN DATO' MOHD SETH and ABDUL RAHMAN BIN TALIB, being two of the Directors of PACIFIC & ORIENT INSURANCE CO. BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 15 to 65, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2007 and of the results and cash flows of the Company for the year then ended.

Signed on behalf of the Board
in accordance with a resolution
of the Directors dated 29 November 2007

GEN (R) TAN SRI DATO' MOHD
GHAZALI BIN DATO' MOHD SETH

ABDUL RAHMAN BIN TALIB

Kuala Lumpur

STATUTORY DECLARATION

I, ABDUL RAHMAN BIN TALIB, the Director primarily responsible for the financial management of PACIFIC & ORIENT INSURANCE CO. BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 15 to 65 are, to the best of my knowledge and belief, 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 ABDUL RAHMAN BIN TALIB)
at Kuala Lumpur in Wilayah Persekutuan)
on 29 November 2007) ABDUL RAHMAN BIN TALIB

Before me:

Commissioner for Oaths

REPORT OF THE AUDITORS TO THE MEMBER OF
PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 15 to 65. 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 information in 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 Financial Reporting Standards in Malaysia so as to a give a true and fair view of:

    (i) the financial position of the Company as at 30 September 2007 and of the results and 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

Habibah bte Abdul
No. 1210/05/08(J)
Partner

Kuala Lumpur, Malaysia
29 November 2007

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

BALANCE SHEET AS AT 30 SEPTEMBER 2007

	Note	2007 RM'000	2006 RM'000 (Restated)
ASSETS			
Property, plant and equipment	6	12,509	12,834
Investment properties	7	635	1,436
Prepaid land lease payments	8	338	342
Intangible assets	9	280	292
Deferred tax assets	10	2,508	5,790
Investments	11	540,340	501,256
Receivables	12	22,724	17,485
Cash and bank balances		3,962	4,005
TOTAL ASSETS		583,296	543,440
LIABILITIES			
Provision for outstanding claims	13	292,583	276,933
Payables	14	9,111	9,998
Hire purchase creditors	15	551	797
TOTAL LIABILITIES		302,245	287,728
Unearned premium reserves	16	113,141	96,757
EQUITY			
Share capital	17	100,000	100,000
Retained profits		67,910	58,955
		167,910	158,955
TOTAL LIABILITIES, UNEARNED PREMIUM RESERVES AND EQUITY-		583,296	543,440

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

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2007

		Issued and fully paid ordinary shares of RM1.00 each		Distributable	
	Note	Number of shares ‘000	Nominal value RM’000	Retained profits RM’000	Total RM’000
At 1 October 2005		100,000	100,000	52,566	152,566
Net Profit for the year		-	-	14,389	14,389
Dividend		-	-	(8,000)	(8,000)
At 30 September 2006		100,000	100,000	58,955	158,955
At 1 October 2006					
As previously stated		100,000	100,000	58,955	158,955
Effect of adopting FRS 140	7	-	-	(201)	(201)
At 1 October 2006 (restated)		100,000	100,000	58,754	158,754
Net profit for the year		-	-	21,156	21,156
Dividend	18	-	-	(12,000)	(12,000)
At 30 September 2007		100,000	100,000	67,910	167,910

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2007

	Note	2007 RM'000	2006 RM'000
Operating revenue	19	248,766	260,601
Investment income	20	612	529
Management expenses	21	(5)	(5)
		607	524
Transfer from General Insurance Revenue Account		26,676	17,976
Profit before taxation		27,283	18,500
Income tax expense	23	(6,127)	(4,111)
Net profit for the year		21,156	14,389
Basic earnings per share (sen)	24	21.16	14.39
Dividend per share (sen) 16.44 sen less tax (2006: 8.00 sen tax exempt)	18	12.00	8.00

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

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2007

		FIRE		MOTOR		MARINE, AVIATION AND TRANSIT		MISCELLANEOUS		TOTAL	
	Note	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	19									248,766	260,072
Gross premium	19	2,792	3,038	182,653	186,654	2,647	1,767	40,030	42,913	228,122	234,372
Reinsurance		(1,443)	(1,587)	(10,195)	(10,806)	(2,389)	(1,481)	(12,313)	(31,894)	(26,340)	(45,768)
Net premium		1,349	1,451	172,458	175,848	258	286	27,717	11,019	201,782	188,604
Decrease / (increase) in unearned premium reserves	16	26	111	(2,375)	8,640	25	10	(14,060)	(1,212)	(16,384)	7,549
Earned premium		1,375	1,562	170,083	184,488	283	296	13,657	9,807	185,398	196,153
Net claims incurred	25	(385)	(129)	(159,943)	(154,660)	307	(94)	(1,354)	(868)	(161,375)	(155,751)
Net commission		(21)	86	(16,498)	(16,915)	54	40	(6,343)	(1,825)	(22,808)	(18,614)
		(406)	(43)	(176,441)	(171,575)	361	(54)	(7,697)	(2,693)	(184,183)	(174,365)
Underwriting surplus before management expenses		969	1,519	(6,358)	12,913	644	242	5,960	7,114	1,215	21,788
Management expenses	21									(32,956)	(33,028)
Underwriting deficit										(31,741)	(11,240)
Investment income	20									20,032	25,700
Other operating income - net	26									38,432	3,575
Profit from operations										26,723	18,035
Finance costs	27									(47)	(59)
Transfer to Income Statement										26,676	17,976

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

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2007

	Note	2007 RM'000	2006 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		27,283	18,500
Adjustments for:			
Depreciation of property, plant and equipment		973	1,302
Amortisation of prepaid land lease payments		4	4
Amortisation of intangible assets		54	57
Amortisation of premiums, net of accretion of discounts		784	746
Gain on disposal of property, plant and equipment		(1)	(2)
Property, plant and equipment written off		57	6
Allowance for /(write-back)of diminution in value of investments		473	(1,800)
Permanent diminution in value of investments		677	6,865
Gain on disposal of investment		(18,049)	(8,323)
Surplus on return of capital from investment		(21,095)	-
Short term accumulating compensated absences		59	11
Dividend income		(2,544)	(10,367)
Interest income		(16,936)	(14,952)
Income from Islamic corporate bonds		(1,547)	(1,284)
(Write back of)/allowance for doubtful debts		(1,326)	168
Increase/(decrease) in unearned premium reserves		16,384	(7,549)
Interest expense		40	53
Operating loss before working capital changes		(14,710)	(16,565)
Changes in working capital:			
Purchase of investments		(125,726)	(5,029)
Proceeds from disposal of investments		72,078	20,551
Proceeds from capital repayment on unquoted investment		43,791	-
Decrease / (increase) in bankers acceptances		9,629	(89,628)
(Increase)/decrease in deposits and placements with financial institutions		(1,305)	64,281
(Increase)/decrease in receivables		(1,541)	3,270
Increase in outstanding claims		15,650	15,951
(Decrease)/increase in payables		(945)	122
Cash used in operations		(3,079)	(7,047)
Tax paid net of recoveries		(3,309)	(7,832)
Dividends received		1,663	7,308
Interest received		15,799	14,913
Income received from Islamic corporate bonds		1,314	1,219
Interest paid		(40)	(53)
Net cash generated from operating activities	28	12,348	8,508

CASH FLOW STATEMENT (Cont'd)
FOR THE YEAR ENDED 30 SEPTEMBER 2007

	Note	2007 RM'000	2006 RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		91	23
Purchase of property, plant and equipment	6(b)	(135)	(82)
Purchase of intangible assets		(42)	(68)
Net cash used in investing activities	28	(86)	(127)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(12,000)	(8,000)
Decrease in hire purchase creditors		(305)	(254)
Net cash used in financing activities	28	(12,305)	(8,254)
Net (decrease)/increase in cash and cash equivalents		(43)	127
Cash and cash equivalents at beginning of year	28	4,005	3,878
Cash and cash equivalents at end of year	28	3,962	4,005
Cash and cash equivalents comprise :			
Cash and bank balances		3,962	4,005

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2007

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

There have been no significant changes in the nature of this activity during the financial year.

The Company is a public company, incorporated and domiciled in Malaysia. The registered office of the Company is located at the 11th Floor, Wisma Bumi Raya, No. 10, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding company is Pacific & Orient Berhad, a company incorporated in Malaysia and listed on the Main Board of Bursa Malaysia Securities Berhad.

The financial statements of the company were authorised for issue on 29 November 2007 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention unless disclosed otherwise in the significant accounting policies. The financial statements comply with the provisions of the Companies Act, 1965, the Insurance Act and Regulations, 1996 and applicable Financial Reporting Standards (FRSs) in Malaysia and the Guidelines/Circulars issued by Bank Negara Malaysia.

At the beginning of the current financial year, the Company had adopted new and revised FRSs as described fully in Note 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the general insurance revenue account during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (g).

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life.

The principal annual rates of depreciation are:

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

The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The difference between the net disposal proceeds and the net carrying amount is recognised in the general insurance revenue account.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is determined by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rental or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the general insurance revenue account in the period in which they arise.

(d) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

The useful lives of computer software and licences are considered to be finite because computer software and licences are susceptible to technological obsolescence.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Intangible Assets (Cont'd)

The acquired computer software and licences are amortised using the straight line method over their estimated useful lives not exceeding 10 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each balance sheet date.

(e) Investments

Investment securities are securities that are acquired and held for yield or capital growth, and are usually held to maturity.

Malaysian Government Securities and Cagamas Bonds are stated at cost adjusted for amortisation of premiums or accretion of discounts calculated on an effective yield basis from date of purchase to maturity. The amortisation of premiums and accretion of discounts are recognised in the income statement/general insurance revenue account.

Government guaranteed bonds, unquoted corporate debt securities and Islamic corporate bonds which carry a minimum rating of "BBB" and "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 maturity dates. Any corporate bond with a lower rating is stated at the lower of cost and net realisable value. The amortisation of premiums and accretion of discounts are recognised in the income statement/general insurance revenue account.

Quoted securities and unit trusts are stated at the lower of cost and market value determined on an aggregate portfolio basis by category except that if diminution in value of an investment is considered permanent, allowance for such diminution is then made accordingly.

Unquoted investments are stated at cost less impairment losses, if any.

Other investments are stated at cost.

The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (g).

(f) Receivables

Receivables are carried at anticipated realisable values.

Known bad debts are written off and specific allowances are made for motor premiums including agents' balances which remain outstanding for more than thirty days and non-motor premiums including agents, brokers and reinsurers balances which remain outstanding for more than six months from the date on which they become receivable and for all debts which are considered doubtful.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Impairment of Assets

The carrying amounts of assets, other than investment properties, investment securities and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGU are allocated to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the income statement/general insurance revenue account in the period in which it arises.

An impairment loss for an asset is reversed if , and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the income statement.

(h) 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.

(i) Equity

Ordinary shares are recorded at nominal value and are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Costs incurred directly attributable to the issuance of shares are accounted for as deduction from equity.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) General Insurance Underwriting Results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, unearned premiums, claims incurred and commissions.

Premium Income

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

Unearned Premium Reserves

The Unearned Premium Reserves ("UPR") represents the portion of premium income not yet earned at balance sheet date. UPR is computed on the following bases:

- 25% method for marine cargo, aviation cargo and transit

- 1/24th method for fire, engineering, and marine hull with a deduction of 15%, bonds and motor with a deduction of 10%, medical with a deduction of 10%-15% and all other classes of business with a deduction of 25% or actual commission incurred, whichever is lower

- 1/8th method for overseas inward treaty business with a deduction of 20% for acquisition costs

- Non-annual policies with a duration of cover extending beyond one year is time apportioned over the period of the risks.

Provision for Claims

Provision is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at balance sheet date. Provision is also made for the cost of claims together with related expenses incurred but not reported at balance sheet date on the basis of the actual claims incurred development pattern, using mathematical methods of estimation.

Acquisition Cost

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 that they will give rise to income.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(l) Income Recognition

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

(ii) Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over 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.

(iii) Interest income from money market instruments and deposits and placements with financial institutions are recognised on an accrual basis.

(iv) Dividend income is recognised when the right to receive payment is established.

(v) Income from Islamic corporate bonds is recognised on an accrual basis.

(m) Foreign Currencies

(i) Functional and Presentation Currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the the Company operates (" the functional currency"). The financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) Foreign Currencies (Cont'd)

(ii) Foreign Currency Transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated using the exchange rates prevailing at the dates of transactions. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the income statement/general insurance revenue account for the period in which they arise.

(n) 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 tax payable in respect of the taxable profit for the year and is measured using the tax rates as enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. 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, unused capital allowances 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, unused capital allowances 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 rate enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in the income statement as income or expense, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exceptions:

- A property held under an operating lease that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (Note 2 (c)); and

- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance Leases - the Company as lessee

Assets acquired by way of hire purchase agreements are stated at an amount equal to the lower of their fair values and the present value of the minimum payments at the inception of the agreements, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as hire purchase creditors. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the agreements, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are charged to income statement/general insurance revenue account.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised in the income statements 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 (Cont'd)

(o) Leases (Cont'd)

(iii) Operating Leases - the Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(p) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions 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 plans

As required by law, the Company makes contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the general insurance revenue account/income statement as incurred.

(iii) Equity compensation benefits

The holding company's Employee Share Options Scheme ("ESOS") allows the Company's employees to acquire ordinary shares of the holding company.

The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase within equity as capital contribution from the holding company over the vesting periods.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Employee benefits (Cont'd)

(iii) Equity compensation benefits (Cont'd.)

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest by vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity as capital contribution reserve.

(q) Cash and Cash Equivalents

Cash and cash equivalents are short term, highly liquid balances which are readily convertible to cash with insignificant risks of changes in value but excluding deposits and placements with financial institutions. The cash flow statement has been prepared using the indirect method.

(r) Financial Instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instruments. The accounting policies on recognition and measurement of these financial instruments are disclosed in the individual accounting policy statements associated with each item.

Unrecognised financial instruments are recognised as liabilities when obligations to pay the counter parties are assessed as being probable.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or 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 not provided as they do not fall within the scope of Financial Reporting Standard ("FRS") 132: Financial Instruments - Disclosure and Presentation.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs

(a) The significant accounting policies are consistent with those of the audited financial statements of financial year ended 30 September 2006 except for the adoption of the following new/revised FRSs effective for financial year beginning 1 October 2006 as follows :

FRS 2	Shared based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events After the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 124	Related Party Disclosures
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of the new/revised FRS 5, 108, 110, 116, 121, 124, 132, 133 and 136 did not result in significant changes in accounting policies of the Company whilst FRS 3, 102, 127, 128, 131 are not applicable.

(b) The principal changes in accounting policies and their effects resulting from the adoption of the new/revised FRSs are as follows:

(i) FRS 2: Shared-based Payment

The Pacific & Orient Berhad Employee Share Options Scheme ("ESOS"), an equity-settled, share-based compensation plan of the Holding Company, allows the Company's employees to acquire ordinary shares of the Holding Company.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(b) The principal changes in accounting policies and their effects resulting from the adoption of the new/revised FRSs are as follows: (Cont'd.)

(i) FRS 2: Shared-based Payment (Cont'd)

The total fair value of the share options granted to employees is recognised as a compensation expense with a corresponding increase in equity as capital contribution reserve.

Prior to 1 October 2006, no compensation expense was recognised in the income statement/general insurance revenue account for share options granted.

The transitional provisions of FRS 2 require this FRS to be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. As the existing share options were granted prior to 31 December 2004, the Company applies this change in accounting policy prospectively in accordance with the transitional provisions of FRS 2. Accordingly, the change in accounting policy has no effect on the current and prior periods' financial statements but would have an effect on the financial statements of future periods when new share options are granted under the ESOS.

(ii) FRS 101: Presentation of Financial Statements

Prior to 1 October 2006, investment properties were classified under investments in the balance sheet. With the adoption of FRS 101, investment properties are now disclosed as a separate line item on the face of the balance sheet.

The current year's presentation of the Company's financial statements is based on the requirements of FRS 101, with the comparatives restated to conform with the current period's presentation as set out in Note 3 (e)(i).

(iii) FRS117: Leases

Prior to 1 October 2006, leasehold land and buildings held for own use were classified as property, plant and equipment and were stated at cost less accumulated depreciation and any impairment losses. The adoption of FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(b) The principal changes in accounting policies and their effects resulting from the adoption of the new/revised FRSs are as follows: (Cont'd.)

(iii) FRS117: Leases (Cont'd.)

Leasehold land held for own use are now classified as operating leases and where necessary, the minimum lease payments or the up front payments made are allocated between the land and the buildings elements in proportion to their relative fair values at the inception of the leases. The up front payments represent prepaid land lease payments and are amortised on a straight-line basis over the lease term.

The Company has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 October 2006, the unamortised amount of leasehold land is retained as surrogate carrying amount of prepaid land lease payments as allowed by the transitional provisions. The classification of leasehold land as prepaid land lease payments has been accounted for retrospectively and as disclosed in Note 3 (e)(i).

The effects on the balance sheet as at 30 September 2007 and income statement/general insurance revenue account for the year ended 30 September 2007 are set out in Note 3 (d)(i) and Note 3 (d)(ii) respectively. Certain comparative amounts as at 30 September 2007 have been restated.

(iv) FRS 138: Intangible Assets

Prior to 1 October 2006, all computer software and licences which are considered to have finite useful lives, were classified as property, plant and equipment and were stated at cost less accumulated depreciation and any accumulated impairment losses. Upon the adoption of FRS 138, the computer software that are not an integral part of the related hardware are now reclassified as intangible assets and are stated at cost less accumulated amortisation and any accumulated impairment losses.

The Company has applied the reclassification of such computer software and licences retrospectively and certain comparative amounts have been restated accordingly, to conform with the current year's presentation, as disclosed in Note 3 (e)(i). The effects on the balance sheet as at 30 September 2007 and income statement/general insurance revenue account for the year ended 30 September 2007 are set out in Note 3 (d)(i) and Note 3 (d)(ii) respectively.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(b) The principal changes in accounting policies and their effects resulting from the adoption of the new/revised FRSs are as follows: (Cont'd.)

(v) FRS 140: Investment Property

Prior to 1 October 2006, investment properties were classified as investments and were stated at cost less any impairment losses and were not depreciated. Investment properties are now disclosed as a separate line item on the face of the balance sheet with the comparative restated to conform with current year's presentation as set out in Note 3(e)(i). Where there is a change in use of investment properties to owner-occupied properties, such properties are reclassified to property, plant and equipment.

The Company has adopted the fair value model to measure its investment properties. Under the fair value model, all investment properties are stated at fair values and any gain or loss arising from a change in fair value is recognised in the income statement/ general insurance revenue account.

The Company has applied FRS 140 in accordance with the transitional provisions. The change in accounting policy has had no impact in the amounts reported for 30 September 2006 or prior periods. Instead, the change has been accounted for by restating the opening balance of retained profits of the Company as at 1 October 2006 by RM201,000 as set out in Note 3 (d)(i).

(c) The Company has not adopted the following FRSs, amendments to FRSs and Issue Committee ("IC") Interpretations which have been issued but are not yet effective:

		Effective for financial periods beginning on or after
FRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2007
Amendment to FRS 19_{2004}	Employee Benefits-Actuarial Gains and losses, Group Plans and Disclosures	1 January 2007
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates-Net Investment in a Foreign Operation	1 July 2007

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(c) The Company has not adopted the following FRSs, amendments to FRSs and Issue Committee ("IC") Interpretations which have been issued but are not yet effective: (Cont'd)

		Effective for financial periods beginning on or after
FRS 107	Cash Flow Statements	1 July 2007
FRS 111	Construction Contracts	1 July 2007
FRS 112	Income Taxes	1 July 2007
FRS 118	Revenue	1 July 2007
FRS 119	Employee Benefits	1 July 2007
FRS 120	Accounting for Government Grants and Disclosure for Government Assistance	1 July 2007
FRS 126	Accounting and Reporting by Retirement Benefit Plans	1 July 2007
FRS 129	Financial Reporting in Hyperinflationary Economies	1 July 2007
FRS 134	Interim Financial Reporting	1 July 2007
FRS 137	Provision, Contingent Liabilities and Contingent Assets	1 July 2007
FRS 139	Financial instruments: Recognition and Measurement	Deferred
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(c) The Company has not adopted the following FRSs, amendments to FRSs and Issue Committee ("IC") Interpretations which have been issued but are not yet effective: (Cont'd)

		Effective for financial periods beginning on or after
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5	Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6	Liabilities arising from Participating in a Specific Market -Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7	Applying the Restatement Approach under FRS 129_{2004}- Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8	Scope of FRS 2	1 July 2007

The adoption of the above is not expected to have any significant effects on the financial statements of the Company upon their initial application.

(d) Summary of effects of adopting new and revised FRSs on the current year's financial statements.

The following tables provide estimates of the extent to which each of the line items in the balance sheet and income statement/general insurance revenue account for the year ended 30 September 2007 is higher or lower than it would have been had the previous policies been applied in the current year.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(d) Summary of effects of adopting new and revised FRSs on the current year's financial statements. (Cont'd)

(i) Effects on balance sheet as at 30 September 2007

	Increase/ (Decrease)			
	FRS 117 Note3(b) (iii)	FRS 138 Note3(b) (iv)	FRS 140 Note3(b) (v)	Total
Description of change	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	(338)	(280)	600	(18)
Investment properties	-	-	635	635
Prepaid land lease payments	338	-	-	338
Intangible assets	-	280	-	280
Investments	-	-	(1,436)	(1,436)
Retained profits	-	-	(201)	(201)

(ii) Effects on income statement for the year ended 30 September 2007

	Increase/ (Decrease)			
	FRS 117 Note3(b) (iii)	FRS 138 Note3(b) (iv)	FRS 140 Note3(b) (v)	Total
Description of change	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	(4)	(54)	-	(58)
Amortisation of:				
- Prepaid land lease payments	4	-	-	4
- Intangible assets	-	54	-	54

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd)

(e) Restatement of comparatives

The following comparative amounts for 30 September 2006 have been restated as a result of adopting the new and revised FRSs:

(i) Balance Sheet

Description of change	Previously stated RM'000	Increase/ (Decrease) FRS 117 Note3(b) (iii) RM'000	FRS 138 Note3(b) (iv) RM'000	FRS 140 Note3(b) (v) RM'000	Restated RM'000
Property, plant and equipment	13,468	(342)	(292)	-	12,834
Investment properties	-	-	-	1,436	1,436
Prepaid land lease payments	-	342	-	-	342
Intangible assets	-	-	292	-	292
Investments	502,692	-	-	(1,436)	501,256

(ii) General Insurance Revenue Account

Description of change	Previously stated RM'000	Increase/ (Decrease) FRS 117 Note3(b) (iii) RM'000	FRS 138 Note3(b) (iv) RM'000	FRS 140 Note3(b) (v) RM'000	Restated RM'000
Depreciation	1,363	(4)	(57)	-	1,302
Amortisation	-	4	57	-	61

(iii) Cash Flow Statement

Description of change	Previously stated RM'000	Increase/ (Decrease) FRS 117 Note3(b)(iii) RM'000	FRS 138 Note3(b)(iv) RM'000	Restated RM'000
Depreciation	1,363	(4)	(57)	1,302
Amortisation	-	4	57	61

4. CHANGES IN ESTIMATES

FRS 116 requires that the residual value and useful life of an item of property, plant and equipment be reviewed at least at the end of each financial year to determine if expectations differ from previous estimates. The Company revised the residual values of certain property, plant and equipment in the current financial year end. The revisions were accounted for prospectively as a change in accounting estimates and as a result, the depreciation charges for the Company for the current financial year have been reduced by RM256,000.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical Judgement Made in Applying Accounting Policies

The following is the judgement made by management in the process of applying the Company's accounting policies that have the most significant effect on the amount recognised in the financial statements.

Classification between investment properties and property, plant and equipment

The Company has developed certain criteria based on FRS 140 in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rental or for capital appreciation or both.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Company would account for the portions separately.

If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

(b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

(b) Key Sources of Estimation Uncertainty (Cont'd)

(i) Depreciation and amortisation

Depreciation and amortisation is based on management's estimates of the future estimated average useful lives and residual values of property, plant and equipment and intangible assets. Estimates may change due to technological developments, expected level of usage, competition, market conditions and other factors, and could impact the estimated average useful lives and the residual values of these assets. This may result in future changes in the estimated useful lives and in the depreciation or amortisation expenses.

(ii) Impairment of assets

Assets are tested for impairment when indications of potential impairment exist. Indicators of impairment which could trigger an impairment review include evidence of obsolescence or physical damage, significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy of the business, significant adverse industry or economic changes.

Recoverable amounts of assets are based on management's estimates and assumptions of the net realisable value, cash flows arising from the future operating performance and revenue generating capacity of the assets and CGUs and future market conditions. Changes in circumstances may lead to revision in estimates and assumptions. This may result in changes to the recoverable amounts of assets and impairment losses.

(iii) Uncertainty in accounting estimates for general insurance business

The principal uncertainty in the general insurance business arises from the claim liabilities. The claim liabilities comprise provision for outstanding claims.

Generally, claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual claim liabilities will not exactly develop as projected and may vary from the projections.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

(b) Key Sources of Estimation Uncertainty (Cont'd)

(iii) Uncertainty in accounting estimates for general insurance business (Cont'd)

The estimate of claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of claim liabilities may vary from the initial estimates.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretation, legislative changes, and claims handling procedures.

The provision for Incurred But Not Reported ("IBNR") claims has been computed by an external professional actuary.

(iv) Deferred tax assets

Deferred tax assets are recognized for all provisions for diminution in value of investment and unearned premium reserves to the extent that it is probable that taxable profit will be available against which the benefits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The total carrying value of provisions for diminution in value of investment and unearned premium reserves of the company was RM2,872,000 (2006: RM6,270,000)

6. PROPERTY, PLANT AND EQUIPMENT

2007	Freehold land RM'000	Buildings Freehold RM'000	Buildings Leasehold RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture, fixtures and fittings RM'000	Total RM'000
Cost :								
At beginning of year, as previously stated	380	278	12,972	9,156	1,876	1,391	2,999	29,052
Effect of adopting FRS 138 (Note 9)	-	-	-	(1,060)	-	-	-	(1,060)
At beginning of year (restated)	380	278	12,972	8,096	1,876	1,391	2,999	27,992
Additions	-	-	-	26	82	12	75	195
Transfer from investment properties (Note 7)	-	100	500	-	-	-	-	600
Disposals	-	-	-	-	(161)	(1)	-	(162)
Write offs	-	-	-	(88)	(153)	(8)	(4)	(253)
At end of year	380	378	13,472	8,034	1,644	1,394	3,070	28,372
Accumulated Depreciation :								
At beginning of year, as previously stated	-	38	3,649	7,782	794	1,130	2,533	15,926
Effect of adopting FRS 138 (Note 9)	-	-	-	(768)	-	-	-	(768)
At beginning of year (restated)	-	38	3,649	7,014	794	1,130	2,533	15,158
Charge for the year	-	8	320	397	65	57	126	973
Disposals	-	-	-	-	(72)	-	-	(72)
Write offs	-	-	-	(89)	(97)	(7)	(3)	(196)
At end of year	-	46	3,969	7,322	690	1,180	2,656	15,863
Net Book Value :								
At end of year	380	332	9,503	712	954	214	414	12,509

6. PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

2006	Freehold land RM'000	Buildings Freehold RM'000	Buildings Leasehold RM'000	Computer equipment RM'000	Motor vehicles RM'000	Office equipment RM'000	Furniture, fixtures and fittings RM'000	Total RM'000
Cost :								
At beginning of year, as previously stated	380	278	12,972	12,058	1,884	1,492	2,959	32,023
Effect of adopting FRS 138 (Note 9)	-	-	-	(992)	-	-	-	(992)
At beginning of year (restated)	380	278	12,972	11,066	1,884	1,492	2,959	31,031
Additions	-	-	-	2	48	27	40	117
Disposals	-	-	-	-	(56)	(10)	-	(66)
Write offs	-	-	-	(2,972)	-	(118)	-	(3,090)
At end of year	380	278	12,972	8,096	1,876	1,391	2,999	27,992
Accumulated Depreciation :								
At beginning of year, as previously stated	-	33	3,347	10,254	459	1,192	2,411	17,696
Effect of adopting FRS 138 (Note 9)	-	-	-	(711)	-	-	-	(711)
At beginning of year (restated)	-	33	3,347	9,543	459	1,192	2,411	16,985
Charge for the year	-	5	302	443	373	57	122	1,302
Disposals	-	-	-	-	(38)	(7)	-	(45)
Write offs	-	-	-	(2,972)	-	(112)	-	(3,084)
At end of year	-	38	3,649	7,014	794	1,130	2,533	15,158
Net Book Value :								
At end of year	380	240	9,323	1,082	1,082	261	466	12,834

6. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

(a) The net carrying amount of motor vehicles held under hire purchase arrangements is RM 946,857 (2006 : RM1,069,000).

(b) During the year, the Company acquired property, plant and equipment by:

	2007 RM'000	2006 RM'000
Cash	135	150
Hire purchase	60	35
	195	185

7. INVESTMENT PROPERTIES

	2007 RM'000	2006 RM'000
Cost:		
At beginning of year	1,436	1,436
Effect of adopting FRS140		
- Adjustment to retained profits (Note 3(d)(i))	(201)	-
At beginning of year (restated)	1,235	1,436
Transfer to property, plant and equipment on change of use (Note 6):		
- Freehold building	(100)	-
- Leasehold building	(500)	-
At end of year	635	1,436
Analysed as:		
Freehold buildings	415	706
Leasehold buildings	220	730
	635	1,436

8. PREPAID LAND LEASE PAYMENTS

	2007 RM'000	2006 RM'000
Long term leasehold land:		
At beginning of year	342	346
Amortisation (Note 21)	(4)	(4)
At end of year	338	342

9. INTANGIBLES ASSETS

	2007 RM'000	2006 RM'000
Computer software and licences:		
Cost		
At beginning of year	1,060	992
Addition	42	68
At end of year	1,102	1,060
Accumulated amortisation		
At beginning of year	768	711
Amortisation (Note 21)	54	57
At end of year	822	768
Net Book Value	280	292

10. DEFERRED TAX

	2007 RM'000	2006 RM'000
At beginning of year	5,790	4,689
Transfer to income statement (Note 23)	(3,282)	1,101
At end of year	2,508	5,790

Presented after appropriate offsetting as follows:

	2007 RM'000	2006 RM'000
Deferred tax assets	2,872	6,270
Deferred tax liabilities	(364)	(480)
At end of year	2,508	5,790

10. DEFERRED TAX (Cont'd)

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

Deferred Tax Assets of the Company:

	Unearned Premium Reserve RM'000	Allowance for Diminution in Value of Investments RM'000	Total RM'000
2007			
At beginning of year	13	6,257	6,270
Recognised in the income statement	(5)	(3,393)	(3,398)
Arising during the year	(5)	(3,161)	(3,166)
Arising due to change in tax rate	-	(232)	(232)
At end of year	8	2,864	2,872
2006			
At beginning of year	11	5,320	5,331
Recognised in the income statement	2	937	939
Arising during the year	3	1,317	1,320
Arising due to change in tax rate	(1)	(380)	(381)
At end of year	13	6,257	6,270

Deferred Tax Liabilities of the Company:

	Accelerated Capital Allowances RM'000	Total RM'000
2007		
At beginning of year	(480)	(480)
Recognised in the income statement	116	116
Arising during the year	98	98
Arising due to change in tax rate	18	18
At end of year	(364)	(364)

10. DEFERRED TAX (Cont'd)

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

Deferred Tax Liabilities of the Company:

	Accelerated Capital Allowances RM'000	Total RM'000
2006		
At beginning of year	(642)	(642)
Recognised in the income statement	162	162
Arising during the year	116	116
Arising due to change in tax rate	46	46
At end of year	(480)	(480)

11. INVESTMENTS

	2007 RM'000	2006 RM'000
Cost:		
Investment securities		
Money market instruments:		
Malaysian Government Securities	63,205	56,976
Amortisation of premiums	(1,505)	(867)
	61,700	56,109
Islamic corporate bonds	30,800	20,420
Amortisation of premiums	(164)	(227)
	30,636	20,193
Bankers acceptances	246,548	256,177
Quoted securities:		
Shares in Malaysia	77,477	23,882
Shares outside Malaysia	4,423	-
	81,900	23,882
Allowance for diminution in value	(383)	-
	81,517	23,882

11. INVESTMENTS (Cont'd)

	2007 RM'000	2006 RM'000
Cost:		
Warrants in Malaysia	289	983
Allowance for diminution in value	(186)	(95)
	103	888
Unit trusts	8,649	6,573
Unquoted securities:		
Shares in Malaysia	-	22,696*
Corporate bonds	-	4,700
Accretion of discount	-	156
	-	4,856
Total investment securities	429,153	391,374
Deposits and placements with licensed banks	111,187	109,882
Total investments	540,340	501,256
Market value:		
Malaysian Government Securities	62,143	56,062
Islamic corporate bonds	30,963	20,800
Shares quoted in Malaysia	79,096	24,592
Shares quoted outside Malaysia	6,895	-
Warrants quoted in Malaysia	103	888
Unit trusts	9,468	6,624
Unquoted corporate bonds	-	4,907

Deposits and placements amounting to RM237,000 (2006 : RM232,000) represent deposits given by the insureds as collateral for bond guarantees granted to third parties.

* This relates to shares in Killinghall (Malaysia) Berhad ("KMB"), an investee company held by the Company, which was delisted from the Official List of Bursa Malaysia Securities Berhad on 29 August 2006 and was placed under a members' voluntary liquidation on 26 September 2006 pursuant to Section 254(1)(b) of the Malaysian Companies Act, 1965. The cost of investment of RM22,696,000 had been fully recovered by the Company during the financial year as disclosed in Note 26.

11. INVESTMENTS (Cont'd)

As at balance sheet date, the range of effective interest rates and the earlier of the contractual repricing or maturity dates for each class of interest-bearing investments are as follows:

	Contractual repricing or maturity date (whichever is earlier) Less than 1 year RM'000	1 to 5 years RM'000	Total Carrying amount RM'000	Range of effective interest rates per annum %
2007				
Malaysian Government Securities	21,494	40,206	61,700	3.15-4.65
Bankers acceptances	246,548	-	246,548	3.57-3.66
Deposits and placements with licensed banks	111,187	-	111,187	3.00-4.10
	379,229	40,206	419,435	
2006				
Malaysian Government Securities	5,002	51,107	56,109	3.15-6.51
Bankers acceptances	256,177	-	256,177	3.70-4.10
Unquoted corporate bonds	-	4,856	4,856	6.42
Deposits and placements with licensed banks	109,882	-	109,882	2.55-4.42
	371,061	55,963	427,024	

The effective profit rate of the Islamic corporate bonds as at the balance sheet date was between 4.45% and 8.00% (2006 : 4.45% and 8.15%) per annum.

The maturity of the Islamic corporate bonds of the Company are as follows:

	2007 RM'000	2006 RM'000
1 to 5 years	30,636	20,193

12. RECEIVABLES

	2007 RM'000	2006 RM'000
Trade receivables:		
Outstanding premiums including agents', brokers' and co-insurers' balances*	8,581	6,280
Due from reinsurers and ceding companies	2,063	3,249
	10,644	9,529
Allowance for doubtful debts	(1,248)	(3,129)
	9,396	6,400
Other receivables:		
Accrued income	5,046	3,691
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	2,485	2,455
Deposits and prepayments	832	987
Tax recoverable	4,479	3,462
Others	486	490
	13,328	11,085
	22,724	17,485

* Includes an amount of RM25,000 (2006: RM28,000) due from a company in which a Director has deemed interest.

The Company's normal trade credit term is up to 60 days. Other credit terms are assessed and approved on a case by case basis.

13. PROVISION FOR OUTSTANDING CLAIMS

	2007 RM'000	2006 RM'000
Provision for outstanding claims	327,573	314,186
Recoverable from reinsurers	(34,990)	(37,253)
Net outstanding claims	292,583	276,933

Included in the provision for outstanding claims is an amount of RM111,906,000 (2006: RM98,837,000) in respect of net provision for Incurred But Not Reported (IBNR) claims as determined by an independent professional actuary.

14. PAYABLES

	2007 RM'000	2006 RM'000
Trade payables:		
Due to reinsurers and ceding companies	2,920	5,452
Due to agents, brokers, co-insurers and insureds	2,645	1,172
	5,565	6,624
Other payables:		
Due to:		
- holding company*	47	40
- fellow subsidiary companies*	35	23
Accruals	557	531
Collateral deposits	249	247
Insurance Guarantee Scheme Fund (IGSF) levy	582	601
Refund premiums	127	170
Service tax payable	231	221
Short term accumulating compensated absences	403	344
Stamp duty payable	834	685
Unclaimed monies	180	177
Others	301	335
	3,546	3,374
	9,111	9,998

*The amounts due to holding company and fellow subsidiary companies are unsecured, interest free and with no fixed terms of repayment.

The normal trade credit terms granted to the Company is up to 90 days.

15. HIRE PURCHASE CREDITORS

	2007 RM'000	2006 RM'000
Future minimum payments:		
Not later than 1 year	279	304
Later than 1 year and not later than 2 years	309	568
Total future minimum payments	588	872
Less: Future finance charges	(37)	(75)
Present value of hire purchase liabilities	551	797
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	254	262
Later than 1 year and not later than 2 years	297	535
	551	797

The hire purchase arrangements at the balance sheet date bore interest between 3.79% and 6.32% (2006: 3.90% and 5.21%) per annum.

16. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
2007					
At beginning of year	804	80,143	124	15,686	96,757
(Decrease)/increase in unearned premium reserves	(26)	2,375	(25)	14,060	16,384
At end of year	778	82,518	99	29,746	113,141
2006					
At beginning of year	915	88,783	134	14,474	104,306
(Decrease)/increase in unearned premium reserves	(111)	(8,640)	(10)	1,212	(7,549)
At end of year	804	80,143	124	15,686	96,757

17. SHARE CAPITAL

	Number of shares		Amount	
	2007 '000	2006 '000	2007 RM'000	2006 RM'000
Authorised shares of RM1.00 each	100,000	100,000	100,000	100,000
Issued and fully paid ordinary shares of RM1.00 each	100,000	100,000	100,000	100,000

18. DIVIDEND

			Net Dividend Per Share	
	2007 RM'000	2006 RM'000	2007 Sen	2006 Sen
1st interim dividend of 16.44 sen per share less tax at 27% in respect of current financial year, paid on 15 March 2007 (2006: 8.00 sen per share tax exempt)	12,000	8,000	12.00	8.00

18 DIVIDEND (Cont'd)

In respect of financial year ended 30 September 2007, the Directors had on 28 November 2007 declared a 2nd interim dividend of 10.81 sen per share less tax at 26% amounting to RM8,000,000. The dividend will be paid on 5 December 2007. This dividend has not been reflected in the financial statements for the current financial year but it will be accounted for in equity as an appropriation of retained profits for the financial year ending 30 September 2008.

19. OPERATING REVENUE

	2007 RM'000	2006 RM'000
Insurance fund		
Gross premium	228,122	234,372
Investment income (Note 20)	20,032	25,700
	248,154	260,072
Shareholder's fund		
Investment income (Note 20)	612	529
	248,766	260,601

20. INVESTMENT INCOME

	2007 RM'000	2006 RM'000
Insurance fund		
Gross dividends:		
- shares quoted in Malaysia	2,391	3,269
- unquoted shares in Malaysia	-	6,857
- unit trusts	153	241
Interest income:		
- Malaysian Government Securities	2,880	2,875
- bankers acceptances	8,246	6,843
- corporate bonds	151	420
- deposits and placements with financial institutions	5,047	4,285
Income from Islamic corporate bonds	1,547	1,284
Rental of properties:		
- third parties	12	12
- fellow subsidiary companies	5	5
- holding company	264	264
MMIP investment income	104	91
Other investment income	16	-
Amortisation of premiums, net of accretion of discounts	(784)	(746)
	20,032	25,700

20. INVESTMENT INCOME (Cont'd)

	2007 RM'000	2006 RM'000
Shareholder's fund		
Interest income:		
- bankers acceptances	572	396
- deposits and placements with financial institutions	40	133
	612	529

21. MANAGEMENT EXPENSES

	2007 RM'000	2006 RM'000
Insurance fund		
Executive Directors' remuneration (Note 22)	946	878
Staff salaries and bonus	12,439	12,032
Staff short term accumulating compensated absences	44	9
Pension costs - defined contribution plan	1,489	1,438
Other staff benefits	1,367	1,137
	16,285	15,494
Depreciation of property, plant and equipment	973	1,302
Amortisation:		
- prepaid lease payments	4	4
-Intangible Assets	54	57
Auditors' remuneration	95	90
Non-Executive Directors' remuneration (Note 22)	115	115
(Write back of)/allowance for doubtful debts	(1,326)	168
Bad debts recovered	(36)	(19)
Rental of properties:		
- third parties	312	305
- fellow subsidiary company	112	109
IGSF levy	582	601
Management fees to holding company	786	729
Call centre service charges to fellow subsidiary company	564	558
Rental of equipment:		
- third party	142	139
- fellow subsidiary company	1,011	1,010
Printing and EDP expenses	4,859	4,703
Business development	2,209	1,563
Bank charges	75	83
Credit card charges	1,928	1,959
Office administration and utilities	1,629	1,634
Other expenses	2,583	2,424
	32,956	33,028

21. MANAGEMENT EXPENSES (Cont'd)

	2007 RM'000	2006 RM'000
Shareholder's fund		
Staff salaries and bonus	3	3
Pension costs - defined contribution plan	1	1
	4	4
Other expenses	1	1
	5	5

22. DIRECTORS' REMUNERATION

Insurance fund	2007 RM'000	2006 RM'000
Executive Directors:		
- Salaries	681	646
- Bonuses	95	82
- Pension costs - defined contribution plan	100	94
- Benefits-in-kind	56	56
- Short term accumulating compensated absences	16	2
- Allowances	54	54
	1,002	934
Non-Executive Directors:		
- Fees	115	115
Total Directors' remuneration	1,117	1,049
Total Executive Directors' Remuneration excluding Benefits-in-kind	946	878

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM528,000 (2006: RM498,000)

23. INCOME TAX EXPENSE

	2007 RM'000	2006 RM'000
Income tax:		
Current year's provision	3,343	4,970
(Over)/under provision in prior years	(498)	242
	2,845	5,212
Deferred tax		
Relating to timing differences	3,281	(1,436)
Under provision in prior years	1	335
Transfer from deferred taxation (Note 10)	3,282	(1,101)
	6,127	4,111

23. INCOME TAX EXPENSE (Cont'd)

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

	2007 RM'000	2006 RM'000
Profit before taxation	27,283	18,500
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	7,366	5,180
Group tax relief *	(663)	(1,972)
Effect of change in tax rate on deferred tax	(22)	111
(Over)/under provision of income tax in prior years	(498)	242
Under provision of deferred tax in prior years	1	335
Income not subject to tax	(490)	(354)
Expenses not deductible for tax purposes	433	569
Tax expense for the year	6,127	4,111

* This is in respect of Group tax relief pursuant to Section 44A of the Income Tax Act, 1967.

As at 30 September 2007, the Company has:

- a tax exempt account balance of approximately RM60,662,000 (2006: RM60,498,000), subject to agreement with the Inland Revenue Board, which is available for distribution.

- sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt account balance to frank the payment of net dividends out of its entire retained profits.

24. BASIC EARNINGS PER SHARE (SEN)

The basic earnings per ordinary share of the Company is calculated by dividing the net profit of RM 21,156,000 (2006 : RM14,389,000) by 100,000,000 ordinary shares.

25. NET CLAIMS INCURRED

	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
2007					
Gross claims paid less salvage	904	152,825	149	2,016	155,894
Reinsurance recoveries	(218)	(9,192)	(133)	(626)	(10,169)
Net claims paid (a)	686	143,633	16	1,390	145,725
Net outstanding claims:					
At end of year (b) (Note 13)	596	288,285	306	3,396	292,583
At beginning of year (c)	(897)	(271,975)	(629)	(3,432)	(276,933)
Net claims incurred (a+b-c)	385	159,943	(307)	1,354	161,375
2006					
Gross claims paid less salvage	969	149,198	255	1,621	152,043
Reinsurance recoveries	(454)	(11,346)	(129)	(314)	(12,243)
Net claims paid (a)	515	137,852	126	1,307	139,800
Net outstanding claims:					
At end of year (b) (Note 13)	897	271,975	629	3,432	276,933
At beginning of year (c)	(1,283)	(255,167)	(661)	(3,871)	(260,982)
Net claims incurred (a+b-c)	129	154,660	94	868	155,751

26. OTHER OPERATING INCOME - NET

	2007 RM'000	2006 RM'000
Insurance fund		
Gain on disposal of:		
- investments	18,049	8,323
- property, plant and equipment	1	2
Realised loss on foreign exchange	(19)	(3)
Sundry income	550	324
Surplus on return of capital from Investment *	21,095	-
(Allowance for)/ write-back of diminution in value of investments	(473)	1,800
Permanent diminution in value of investments	(677)	(6,865)
Property, plant and equipment written off	(57)	(6)
Tax penalty	(37)	-
	38,432	3,575

26. OTHER OPERATING INCOME - NET (Cont'd)

* During the financial year, the Company had received a total amount of RM43,791,000 being proceeds from the first and second distribution of surplus assets by the liquidators of KMB resulting in a full recovery of the cost of investment totalling RM22,696,000 (Note 11) and a surplus of RM21,095,000.

27. FINANCE COSTS

	2007 RM'000	2006 RM'000
Insurance fund		
Hire-purchase interest	40	53
Others	7	6
	47	59

28. SEGMENT INFORMATION ON CASH FLOW

	Insurance fund		Shareholder's funds		Total	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash flow from:						
Operating activities	347	512	12,001	7,996	12,348	8,508
Investing activities	(86)	(127)	-	-	(86)	(127)
Financing activity	(305)	(254)	(12,000)	(8,000)	(12,305)	(8,254)
	(44)	131	1	(4)	(43)	127
Net (decrease)/ increase in cash and cash equivalents	(44)	131	1	(4)	(43)	127
Cash and cash equivalents:						
At beginning of year	4,004	3,873	1	5	4,005	3,878
At end of year	3,960	4,004	2	1	3,962	4,005

29. COMMITMENTS AND CONTINGENCIES

(a) Non-cancellable operating lease commitments

	2007 RM'000	2006 RM'000
Future minimum lease payments are as follows:		
Not later than 1 year	693	716
Later than 1 year and not later than 5 years	512	887
	1,205	1,603

These represent rental commitments of computer and office equipment.

29. COMMITMENTS AND CONTINGENCIES (Cont'd)

(b) Other commitments and contingencies

The Company may be required to contribute up to a maximum amount of RM566,000 (2006 : RM582,000) in the following financial year to the Insurance Guarantee Scheme Fund.

30. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The significant transactions of the Company with its related parties are as follows:

	2007	2006
	RM'000	RM'000
Holding company:		
Rental income	(264)	(264)
Management fees	786	729
Fellow subsidiaries of Pacific&Orient Berhad group:		
Office rental	112	109
Purchase of computers	54	61
Information technology services fee	2,536	2,574
Call centre service charge	564	558
Leasing of office equipment	658	665
Repair and maintenance	68	70
Rental of equipment	354	345
Staff training	26	-
Related company in which a director has deemed interest:		
Insurance premiums	286	374

Information regarding outstanding balances arising from related party transactions as at 30 September 2007 are disclosed in Note 12 and 14.

The Directors are of the opinion that the related party transactions above have been entered into in the normal course of business on terms and conditions which are not materially different from that obtainable in transactions with unrelated parties.

30. SIGNIFICANT RELATED PARTY DISCLOSURES (Cont'd)

(b) Key Management Personnel Compensation

The remuneration of key management personnel which consists of Executive Directors during the year are as follows:

	2007	2006
	RM'000	RM'000
Short-term employee benefits		
Salary and other remuneration	681	646
Bonus	95	82
Allowances	54	54
Short term accumulating compensated absences	16	2
Benefits-in-kind		
- arising from exercise of share options	-	-
-others	56	56
Post-employment benefits		
Pension cost- defined contribution plan	100	94
	1,002	934

Key management personnel have been granted the following number of share options under the ESOS of the holding company:

	ESOS	
	2007	2006
	'000	'000
At 1 October	1,700	1,700
Exercised	-	-
At September	1,700	1,700

The share options were granted on the same terms and conditions as those offered to other employees of the Company.

31. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's business whilst managing its underwriting, credit, interest rate, market and liquidity risks. The Company manages its financial risks via internal controls, standard operating procedures, investment strategies approved by the Board of Directors and adherence to the rules and regulations stipulated by the relevant authorities.

(b) Underwriting Risk

Underwriting risk is the risk of loss resulting from the selection and approval of risks to be insured.

The Company manages its underwriting risks through the application of strict underwriting guidelines, which include exclusions, cover limits, loadings and availability of reinsurance programmes. New risks are carefully assessed before they are underwritten and insurance policies issued.

(c) Credit Risk

Credit risk is the risk of loss arising as a result of default by a debtor or counter party to a financial instrument. Credit risk is controlled by the application of credit approvals, limits, and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Company's association to counter parties with high credit worthiness.

The risk arising from lending and investment activities is monitored regularly with respect to single customer limits, exposure to sector type, credit rating and remaining term to maturity, in accordance with investment guidelines and limits approved by the Board of Directors and prescribed by BNM.

The maximum exposure to credit risks is the carrying amount as stated in the financial statements. The Company does not have any significant exposure to any individual customer or counter party nor does it have any major concentration of credit risk related to any financial instruments.

31. FINANCIAL INSTRUMENTS (Cont'd)

(c) Credit Risk (Cont'd)

The Company's credit risk exposure is analysed as follows:

	2007 RM'000	2006 RM'000
Rating of corporate bonds on market value basis:		
AA 3	5,336	5,412
AA2	5,045	-
AA-	5,011	10,204
A 1	5,051	-
A3	-	4,907
A+	10,520	-
A	-	5,184
	30,963	25,707

Analysis of corporate bonds by industry segments:

Properties	5,045	5,184
Power	5,336	5,412
Trading/services	5,051	10,078
Oil and gas	5,011	5,033
Infrastructure & utilities	10,520	-
	30,963	25,707

(d) Interest Rate Risk

The Company's earnings are affected by fluctuations in market interest rates due to the impact such changes have on interest bearing assets and liabilities.

The Company manages this risk through the assessment of differences in maturities of assets and liabilities and the consequent reinvestment of interest-bearing assets to meet medium to long term working capital requirements.

As a result, the maintenance of a prudent mix of short and long term interest-bearing assets and liabilities as well as continuous reviews thereof are key factors in ensuring that returns generated from the interest bearing assets and expenses arising from interest bearing liabilities are commensurate with the risk profiles of the instruments involved.

(e) Market Risk

The Company's exposure to market risk arises mainly from changes in equity prices. The risk of loss in value is minimised by performing the requisite analyses prior to making an investment decision as well as ensuring that such investments are monitored continuously. Equity investments are available for sale and the Company manages the disposal of these investments with a view to optimising returns on realisation.

31. FINANCIAL INSTRUMENTS (Cont'd)

(f) Foreign Exchange Risk

The Company is exposed to foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposure. Foreign exchange exposures to other currencies are kept to an acceptable level.

(g) Liquidity Risk

The Company actively manages its operating cash flows so as to ensure that all its funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

(h) Derivatives

As at 30 September 2007 and 2006, the Company did not transact in any derivative instruments for hedging purposes.

(i) Fair Values

The aggregate net fair values of financial assets and financial liabilities not carried at fair values on the balance sheet of the Company as at the end of the financial year are represented as follows:

	2007		2006	
	Carrying amount RM'000	Fair Value RM'000	Carrying amount RM'000	Fair Value RM'000
Financial Assets				
Investment securities:				
Malaysian Government Securities	61,700	62,143	56,109	56,062
Islamic corporate bonds	30,636	30,963	20,193	20,800
Shares quoted in Malaysia	77,094	79,096	23,882	24,592
Shares quoted outside Malaysia	4,423	6,895	-	-
Unit trusts	8,649	9,468	6,573	6,624
Unquoted shares (Note 11)	-	-	22,696	43,671
Unquoted corporate bonds	-	-	4,856	4,907
Financial Liabilities				
Due to holding company	47	*	40	*
Due to fellow subsidiary companies	35	*	23	*
Hire purchase creditors	551	556	797	817

31. FINANCIAL INSTRUMENTS (Cont'd)

(i) Fair Values (Cont'd)

* It is not practical to estimate the fair value of amounts due to fellow subsidiary companies and holding company mainly due to a lack of fixed repayment terms entered into by the parties involved.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and bank balances, deposits and placements with financial institutions, bankers acceptances and other receivables/payables.

The carrying amounts approximate fair values due to the relatively short term maturity of these financial instruments.

(ii) Malaysian Government Securities, Islamic Corporate Bonds and Unquoted Corporate Bonds.

The fair values of Malaysian Government Securities, Islamic corporate bonds and unquoted corporate bonds are indicative values obtained from the secondary market.

(iii) Quoted Securities

The fair values of quoted shares and warrants are determined by reference to the stock exchange quoted market bid prices at the close of the business on the balance sheet date.

(iv) Unit Trusts

The fair value of quoted units in the unit trust funds are determined by reference to market quotations by the manager of the unit trust funds.

(v) Hire Purchase Creditors

The fair value of hire purchase creditors is estimated by discounting the expected future cash flows using the current interest rates for liabilities with similar risk profiles.