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

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements For Financial Year Ended 30 September 2009

Ernst & Young
AF : 0039

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

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Company No: 12557 W

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 2009.

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	24,946

DIVIDEND

No dividend was declared or paid since the end of the previous financial year and the directors do not recommend the payment of any 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
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Appointed on 23 June 2009)
Y.Bhg. Dato’ Abu Hanifah Bin Noordin
Mr. Chan Thye Seng
Mr. Michael Yee Kim Shing
En. Mohammad Nizar Bin Idris (Appointed on 23 June 2009)
En. Abdul Rahman Bin Talib
Mr. Ong Eng Soon (Resigned on 23 March 2009)

In accordance with Section 129(6) 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 74 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.

In accordance with Article 80 of the Company's Articles of Association, Y.Bhg. Dato’ Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim and En. Mohammad Nizar Bin Idris retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves 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			
	At 1 October 2008	Bought	Sold	At 30 September 2009
The Company				
Mr. Chan Thye Seng				
- Indirect interest	100,000,000	-	-	100,000,000
Pacific & Orient Berhad (Holding Company)				
Mr. Chan Thye Seng				
- Direct interest	11,439,168	-	-	11,439,168
- Indirect interest	54,366,209*	19,700	-	54,385,909
Mr. Michael Yee Kim Shing				
- Indirect interest	928,901	-	-	928,901
Y.Bhg.Dato' Abu Hanifah Bin Noordin				
- Indirect interest	2,348,516	-	-	2,348,516

* This represents an adjustment pursuant to Section 134(12)(c) of the Companies Act 1965.

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 ESOS granted to them by the holding company on 5 April 2003:

		Number of Share Options Under ESOS of RM1.00 Each			
Name of option holders	Exercise Price RM	At 1 October 2008	Granted	Exercised	At 30 September 2009
Mr. Chan Thye Seng	1.27	900,000	-	-	900,000
En. Abdul Rahman Bin Talil	1.27	850,000	-	-	850,000
Mr. Ong Eng Soon (Resigned on 23 March 2009)	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 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 2009, the Board comprises seven directors with wide-ranging skills and experience. There is a balance in the Board represented by the presence of one Non-Independent Executive Directors, five 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:

CORPORATE GOVERNANCE (Cont'd)

Board Composition, Attendance and Meetings

	Attendance
Y.Bhg. Gen (R) Tan Sri Dato’ Mohd Ghazali Bin Dato’ Mohd Seth (Chairman) Independent, Non-Executive Director	10/10
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Appointed on 23 June 2009) Independent, Non-Executive Director	1/1
Y.Bhg. Dato’ Abu Hanifah Bin Noordin Independent, Non-Executive Director	10/10
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	10/10
Mr. Michael Yee Kim Shing Independent, Non-Executive Director	10/10
En. Mohammad Nizar Bin Idris (Appointed on 23 June 2009) Independent, Non-Executive Director	1/1
En. Abdul Rahman Bin Talib Non-Independent Director, Chief Executive Officer	9/10
Mr. Ong Eng Soon (Resigned on 23 March 2009) Non-Independent, Executive Director	5/5

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 BNM.

The Directors have the overall responsibility for taking such steps are 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, operational and compliance controls maintained by the Company that provides reasonable assurance regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts, 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.

Internal Control and Enterprise Risk Management (Cont'd)

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 ("AC")

The attendance of the members at the AC was as follows:

Membership:	Attendance
Mr. Michael Yee Kim Shing (Chairman)	4/4
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	4/4
Y.Bhg. Dato' Abu Hanifah Bin Noordin	4/4
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Appointed on 26 August 2009)	-
En. Mohammad Nizar Bin Idris (Appointed on 26 August 2009)	-

Risk Management, Control and Governance Systems

Management has established risk management, control and governance systems to manage risks and achieve business objectives. The AC reports to the Board on the effectiveness of the systems established by management.

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.

1. Audit Committee ("AC") (Cont'd)

(ii) To review the following and report to the Board: (Cont'd.)

(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 AC 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 AC 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.

(iii) To prepare the AC 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 AC 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.

During the year, the AC had reviewed 21 internal audit, risk management and corporate governance reports as well as the unaudited quarterly financial results and the results of the annual audit, including the External Auditor's audit report and management letter.

2. Nominating Committee ("NC")

The attendance of the members at the NC meetings was as follows:

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

2. Nominating Committee ("NC") (Cont'd)

Policy and Procedures for New Appointment, Re-appointment of Directors, Assessment of Effectiveness of the Board, Board Committees and Individual Directors and Assessment of Fitness and Propriety

Policy and procedures pertaining to the above have been established to guide the NC in the performance of its functions and duties.

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 ("CEO") 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 CEO. These assessments are carried out on an annual basis.

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

(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.

During the year, the NC had conducted an annual assessment of the performance of the Chief Executive Officer and Executive Director as well as assessed the performance of all new Directors and existing Directors prior to their appoinments and re-appointments respectively, subject to BNM's approval.

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 ("RC")

The attendance of the members at the RC 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

Remuneration Policy

A remuneration policy has been established to govern the remuneration of the Non-Executive Directors, Chief Executive Officer, Executive Director and key senior officers.

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, CEO 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 CEO and Executive Director. The remuneration packages for CEO 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.

In the meeting of the RC during the year, the Committee had reviewed and recommended to the Board the remuneration of the Chief Executive Officer and Executive Director.

4. Risk Management Committee ("RMC")

The attendance of the members at the RMC meetings was as follows:

Membership:	Attendance
Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)	5/5

4. Risk Management Committee ("RMC") (Cont'd)

Membership:	Attendance
Y.Bhg. Gen (R) Tan Sri Dato’ Mohd Ghazali Bin Dato’ Mohd Seth	5/5
Mr. Chan Thye Seng	5/5
Mr. Michael Yee Kim Shing	5/5
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Appointed on 26 August 2009)	-
En. Mohammad Nizar Bin Idris (Appointed on 26 August 2009)	-

Risk Management Framework

The RMC 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 RMC 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.

The RMC had conducted a review of the strategic risks of the Company as well as all known risks identified by the individual business units during the year. In addition, key outsourcing risks pertaining to outsource of core or material services were also reviewed to ensure related risks were being appropriately managed and, where relevant, that prompt corrective actions were taken. The RMC has also reviewed the stress test report for recommendation to the Board prior to submission to BNM.

RISK- BASED CAPITAL FRAMEWORK

On 1 January 2009, the Risk-Based Capital Framework ("the RBC Framework"), was introduced as the capital adequacy framework for all insurers licensed under the Insurance Act, 1996. The RBC Framework was imposed by the Minister of Finance, pursuant to Section 23 of the Insurance Act, 1996 as a licensing condition for insurers effective from 1 January 2009. Details of compliance with the RBC Framework are disclosed in Note 31 to the financial statements.

HOLDING AND ULTIMATE HOLDING COMPANY

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

SUBSEQUENT EVENT

Details of a subsequent event are disclosed in Note 32 to the financial statements.

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 26 November 2009

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 17 to 66, 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 2009 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 26 November 2009

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 17 to 66 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 26 November 2009) ABDUL RAHMAN BIN TALIB

Before me:

Commissioner for Oaths

Company No: 12557-W

Independent auditors' report to the member of
Pacific & Orient Insurance Co. Berhad
(Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Pacific & Orient Insurance Co. Berhad, which comprise the balance sheet as at 30 September 2009 of the Company, and the income statement, statement of changes in equity and cash flow statement of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 66.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Company No: 12557-W

Independent auditors' report to the member of Pacific & Orient Insurance Co. Berhad (Cont'd) (Incorporated in Malaysia)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2009 and of the financial performance and cash flows of the Company for the year then ended.

Emphasis of Matter

In forming our opinion , we have considered the disclosure made in Note 31 to the financial statements. In view of the significance of the matter, we wish to draw your attention to the note, which describes the status of the Company's compliance with the Risk-Based Capital Framework (“the RBC Framework”) as at 30 September 2009. The Framework was introduced as the capital adequacy framework for all insurers licensed under the Insurance Act, 1996 effective from 1 January 2009. It has been imposed by the Minister of Finance, pursuant to Section 23 of the Insurance Act, 1996 as a licensing condition for insurance companies. As at 30 September 2009, the Company has not met the 130% Supervisory Target Capital stipulated in the Framework. The Company has submitted its capital management plans ("CMP") to Bank Negara Malaysia ("BNM") during the financial year, pursuant to section 58(2) of the Insurance Act, 1996. As of the date of this report, the Company is working closely with BNM to finalise the details of the CMP, to ensure compliance with the capital adequacy requirements stipulated in the RBC Framework.

Our opinion is not qualified in respect of this matter.

Reporting on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, 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.

Other matters

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Habibah bte Abdul
No. 1210/05/10(J)
Chartered Accountant

Kuala Lumpur, Malaysia
26 November 2009

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

BALANCE SHEET AS AT 30 SEPTEMBER 2009

	Note	2009 RM'000	2008 RM'000
ASSETS			
Property, plant and equipment	5	17,870	12,228
Investment properties	6	645	635
Prepaid land lease payments	7	330	334
Intangible assets	8	178	228
Deferred tax assets	9	2,813	11,785
Investments	10	685,723	568,496
Receivables	11	29,598	38,546
Cash and bank balances		7,909	6,316
TOTAL ASSETS		745,066	638,568
LIABILITIES			
Provision for outstanding claims	12	357,760	306,972
Payables	13	14,668	19,263
Hire purchase creditors	14	350	619
Provision for taxation		-	941
TOTAL LIABILITIES		372,778	327,795
Unearned premium reserves	15	199,573	168,226
EQUITY			
Share capital	16	100,000	100,000
Retained profits	17	67,493	42,547
Revaluation Reserve		5,222	-
		172,715	142,547
TOTAL LIABILITIES, UNEARNED PREMIUM RESERVES AND EQUITY		745,066	638,568

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

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2009

		Issued and fully paid ordinary shares of RM 1.00 each		Non-Distributable	Distributable	
	Note	Number of shares	Nominal value	Revaluation reserve	Retained profits	Total
		'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2007		100,000	100,000	-	67,910	167,910
Net loss for the year		-	-	-	(17,363)	(17,363)
Dividend	18	-	-	-	(8,000)	(8,000)
At 30 September 2008		100,000	100,000	-	42,547	142,547
At 1 October 2008		100,000	100,000	-	42,547	142,547
Net profit for the year		-	-	-	24,946	24,946
Revaluation surplus	5	-	-	6,962	-	6,962
Transferred to deferred tax on revaluation surplus	9	-	-	(1,740)	-	(1,740)
At 30 September 2009		100,000	100,000	5,222	67,493	172,715

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 2009

	Note	2009 RM'000	2008 RM'000
Operating revenue	19	385,627	329,339
Investment income	20	610	729
Management expenses	21	(8)	(7)
		602	722
Transfer from General Insurance Revenue Account		31,778	(23,785)
Profit/(loss) before taxation		32,380	(23,063)
Income tax expense	23	(7,434)	5,700
Net profit/(loss) for the year		24,946	(17,363)
Basic earnings/(loss) per share (sen)	24	24.95	(17.36)
Dividend per share (sen) Nil sen (2008: 10.81 sen less tax)	18	-	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 2009

	Note	FIRE 2009	FIRE 2008	MOTOR 2009	MOTOR 2008	MARINE, AVIATION AND TRANSIT 2009	MARINE, AVIATION AND TRANSIT 2008	MISCELLANEOUS 2009	MISCELLANEOUS 2008	TOTAL 2009	TOTAL 2008
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	19									385,627	329,339
Gross premium	19	2,756	2,575	307,164	241,810	3,343	3,486	49,614	59,843	362,877	307,714
Reinsurance		(1,313)	(1,424)	(16,675)	(13,147)	(3,077)	(3,320)	(19,659)	(18,561)	(40,724)	(36,452)
Net premium		1,443	1,151	290,489	228,663	266	166	29,955	41,282	322,153	271,262
(Increase)/decrease in unearned premium reserves	15	(83)	101	(25,806)	(32,456)	(21)	10	(5,437)	(22,740)	(31,347)	(55,085)
Earned premium		1,360	1,252	264,683	196,207	245	176	24,518	18,542	290,806	216,177
Net claims incurred	25	(531)	(363)	(206,895)	(152,128)	(97)	(166)	(3,076)	(2,242)	(210,599)	(154,899)
Net commission		(137)	(77)	(28,090)	(22,000)	94	121	(6,554)	(9,393)	(34,687)	(31,349)
		(668)	(440)	(234,985)	(174,128)	(3)	(45)	(9,630)	(11,635)	(245,286)	(186,248)
Underwriting surplus before management expenses		692	812	29,698	22,079	242	131	14,888	6,907	45,520	29,929
Management expenses	21									(39,639)	(38,431)
Underwriting surplus/(deficit)										5,881	(8,502)
Investment income	20									22,140	20,896
Other operating income/(expenses) - net	26									3,794	(36,148)
Profit/ (loss)from operations										31,815	(23,754)
Finance costs	27									(37)	(31)
Transfer to Income Statement										31,778	(23,785)

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

Company No: 12557 W

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2009

	2009 RM'000	2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before taxation	32,380	(23,063)
Adjustments for:		
Depreciation of property, plant and equipment	1,006	904
Amortisation of prepaid land lease payments	4	4
Amortisation of intangible assets	50	52
Amortisation of premiums, net of accretion of discounts	227	688
Revaluation deficit of property, plant and equipment	353	-
Gain on fair value adjustment	(10)	-
Gain on disposal of property, plant and equipment	-	(36)
Quoted warrants written off	-	411
(Write back)/allowance for diminution in value of investments	(24,453)	38,525
Gain/(loss) on disposal of investment	21,844	(1,181)
Short term accumulating compensated absences	35	(28)
Dividend income	(3,727)	(3,514)
Interest income	(17,304)	(16,556)
Income from Islamic corporate bonds	(1,506)	(1,834)
Allowance for doubtful debts	1,503	416
Increase in unearned premium reserves	31,347	55,085
Interest expense	31	24
Operating profit before working capital changes	41,780	49,897
Changes in working capital:		
Purchase of investments	(50,777)	(58,756)
Disposal of investments	98,294	42,726
Capital repayment of investment	296	-
Decrease/(increase) in bankers acceptances	219,576	(54,973)
(Increase)/decrease in deposits and placements with financial institutions	(379,366)	4,783
Decrease/(increase) in receivables	10,082	(17,468)
Increase in outstanding claims	50,788	14,389
(Decrease)/increase in payables	(4,631)	10,181
Cash used in operations	(13,958)	(9,221)

CASH FLOW STATEMENT (Cont'd)
FOR THE YEAR ENDED 30 SEPTEMBER 2009

	Note	2009 RM'000	2008 RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd)			
Tax paid net of recoveries		(2,187)	(758)
Dividends received		1,523	1,851
Interest received		14,851	17,122
Income received from Islamic corporate bonds		1,703	1,903
Interest paid		(31)	(24)
Net cash generated from operating activities	28	1,901	10,873
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		-	97
Purchase of property, plant and equipment	5(c)	(39)	(322)
Net cash used in investing activities	28	(39)	(225)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		-	(8,000)
Decrease in hire purchase creditors		(269)	(294)
Net cash used in financing activities	28	(269)	(8,294)
Net increase in cash and cash equivalents		1,593	2,354
Cash and cash equivalents at beginning of year	28	6,316	3,962
Cash and cash equivalents at end of year	28	7,909	6,316
Cash and cash equivalents comprise:			
Cash and bank balances		7,909	6,316

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 2009

1. PRINCIPAL ACTIVITIES 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 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 Market of Bursa Malaysia Securities Berhad.

The financial statements of the company were authorised for issue on 26 November 2009 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 ("BNM").

At the beginning of the current financial year, the Company had adopted new and revised FRSs, amendments to FRSs and Issues Committee Interpretations 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 and buildings and leasehold buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and buildings and leasehold buildings are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. Fair values are determined from market-based evidence by appraisals that are undertaken by professionally qualified valuers. Revaluations are performed once in every five years or earlier if the carrying values of the revalued properties are materially higher than the market values. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same property previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same property and the balance is thereafter recognised in income statement. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Upon disposal or retirement of a property, any revaluation reserve relating to the particular property is transferred directly to retained earnings.

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%

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Property, Plant and Equipment and Depreciation

The principal annual rates of depreciation are:

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

The residual values, 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 and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Investments

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Impairment of Assets

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 periods in which they are declared.

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

(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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) General Insurance Underwritting Results

Unearned Premium Reserves

- 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.

Provisions 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 Company operates (“the functional currency”). The financial statements are presented in Ringgit Malaysia (RM), which is also the Company’s functional currency.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(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 rate 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 rates 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Leases (Cont'd)

(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).

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Employee Benefits (Cont'd)

(i) Short term benefits (Cont'd)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(r) Financial Instruments (Cont'd)

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 2008 except for a change in accounting policy to adopt the revaluation model to measure freehold land and buildings and leasehold buildings classified as property, plant and equipment in accordance with FRS 116: Property, plant and equipment. This change in accounting policy has been accounted for prospectively with the initial application of the revaluation model in accordance with FRS116.

Prior to 1 October 2008, freehold land and buildings and leasehold buildings that were owner-occupied were stated at cost less accumulated depreciation and any accumulated impairment losses.

The Company has changed its accounting policy to adopt the revaluation model to measure the aforementioned properties in accordance with FRS 116. Under the revaluation model, the properties are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. Fair values are determined from market-based evidence by appraisals that are undertaken by professionally qualified valuers. Revaluations are performed once in every five years or earlier if the carrying values of the revalued properties are materially higher than the market values.

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

Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same property previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same property and the balance is thereafter recognised in income statement. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Upon disposal or retirement of a property, any revaluation reserve relating to the particular property is transferred directly to retained earnings.

(a) (i) Effects on balance sheet as at 30 September 2009

Description of change:	Increase FRS 116 RM'000
Property, plant and equipment	6,400
Deferred tax assets	(1,652)
Revaluation reserve	5,222

(ii) Effects on income statement for the year ended 30 September 2009

Description of change:	Increase FRS 116 RM'000
Revaluation deficit of property, plant and equipment	353
Income tax expense	(88)
Depreciation of property, plant and equipment	209

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

(b) The Company has not adopted the following FRSs and Issues Committee ("IC") Interpretations which have been issued but are not yet effective:

		Effective for financial periods beginning on or after
Amendments to FRS 1 and FRS 127	Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements-Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendment to FRS 2	Share-based Payment-Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 132	Financial Instruments: Presentation	1 January 2010
Amendments to FRS 139, FRS 7 and IC Interpretation 9	Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
Amendments to FRSs	Contained in the document entitled “Improvements to FRSs (2009)”	1 January 2010
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments: Disclosures	1 January 2010
FRS 8	Operating Segments	1 July 2009
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 139	Financial Instruments -Recognition and Measurement	1 January 2010

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

		Effective for financial periods beginning on or after
IC Interpretation 9	Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10	Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11	FRS 2: Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13	Customer Loyalty Programmes	1 January 2010
IC Interpretation 14	FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2010

The adoption of Amendments to FRSs 2, 132, Amendments to IC Interpretations 9, Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)", IC Interpretations 9, 10, and 11, FRS 8, FRS 101, and FRS 123 does not have any significant impact on the financial statements.

The impact of applying Amendments to FRSs 7 and 139, FRS 4, FRS 7 and FRS 139 on the financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108: Accounting Policies, Changes in Accounting Estimates and Errors are not required to be disclosed by virtue of exemptions given in the respective FRSs.

Amendments to FRSs 1 and 127, IC Interpretations 13 and 14 are not applicable to the Company.

4. 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.

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

(a) Classification between investment properties and property, plant and equipment

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:

(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 impairments losses.

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

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

(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.

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.

Details of deferred tax assets are disclosed in Note 9 to the financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

	<-----Valuation	----->		<-----		Cost		----->
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Valuation/Cost:								
At beginning of year	380	378	13,472	7,962	1,903	1,473	3,133	28,701
Additions	-	-	-	3	-	15	21	39
Disposals	-	-	-	-	-	(12)	-	(12)
Write offs	-	-	-	(3)	-	-	-	(3)
Revaluation surplus	140	219	6,603	-	-	-	-	6,962
Revaluation deficit	-	-	(353)	-	-	-	-	(353)
Transfer*		(56)	(4,342)	-	-	-	-	(4,398)
At end of year	520	541	15,380	7,962	1,903	1,476	3,154	30,936
Accumulated Depreciation:								
At beginning of year	-	55	4,288	7,596	535	1,226	2,773	16,473
Charge for the year	-	13	525	241	93	57	77	1,006
Disposals	-	-	-	-	-	(12)	-	(12)
Write offs	-	-	-	(3)	-	-	-	(3)
Transfer*	-	(56)	(4,342)	-	-	-	-	(4,398)
At end of year	-	12	471	7,834	628	1,271	2,850	13,066
Net Book Value:								
At end of year	520	529	14,909	128	1,275	205	304	17,870

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

5. PROPERTY, PLANT AND EQUIPMENT

	<------	------	------	Cost	------	------	------	------>
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost:								
At beginning of year	380	378	13,472	8,034	1,644	1,394	3,070	28,372
Additions	-	-	-	-	528	89	67	684
Disposals	-	-	-	(72)	(269)	(9)	-	(350)
Write offs	-	-	-	-	-	(1)	(4)	(5)
At end of year	380	378	13,472	7,962	1,903	1,473	3,133	28,701
Accumulated Depreciation:								
At beginning of year	-	46	3,969	7,322	690	1,180	2,656	15,863
Charge for the year	-	9	319	334	65	56	121	904
Disposals	-	-	-	(60)	(220)	(9)	-	(289)
Write offs	-	-	-	-	-	(1)	(4)	(5)
At end of year	-	55	4,288	7,596	535	1,226	2,773	16,473
Net Book Value:								
At end of year	380	323	9,184	366	1,368	247	360	12,228

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

(a) Freehold land and buildings and leasehold buildings were revalued on 3 November 2008 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

The net book values of the freehold land and buildings and leasehold buildings of the Company had the cost model been applied, compared to the revaluation model as at 30 September 2009 are as follows:

	Net Book Value	
	Under Revaluation Model	Under Cost Model
	2009	2009
	RM'000	RM'000
Freehold land	520	380
Freehold buildings	529	314
Leasehold buildings	14,909	8,864
	15,958	9,558

(b) The net book value of motor vehicles held under hire purchase arrangements is RM836,000 (2008 : RM1,326,000).

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

	2009	2008
	RM'000	RM'000
Cash	39	322
Hire purchase	-	362
	39	684

6. INVESTMENT PROPERTIES

	2009	2008
	RM'000	RM'000
At beginning of year	635	635
Gain on fair value adjustment (Note 26)	10	-
At end of year	645	635
Analysed as:		
Freehold buildings	415	405
Leasehold buildings	230	230
	645	635

7. PREPAID LAND LEASE PAYMENTS

	2009 RM'000	2008 RM'000
Long term leasehold land:		
At beginning of year	334	338
Amortisation (Note 21)	(4)	(4)
At end of year	330	334

8. INTANGIBLES ASSETS

	2009 RM'000	2008 RM'000
Computer software and licences:		
Cost		
At beginning of year/end of year	1,102	1,102
Accumulated amortisation		
At beginning of year	874	822
Amortisation (Note 21)	50	52
At end of year	924	874
Net Book Value	178	228

9. DEFERRED TAX

	2009 RM'000	2008 RM'000
At beginning of year	11,785	2,508
Transfer (from)/to income statement (Note 23)	(7,232)	9,277
Transfer from revaluation reserve	(1,740)	-
At end of year	2,813	11,785

Presented after appropriate offsetting as follows:

	2009 RM'000	2008 RM'000
Deferred tax assets	4,762	12,067
Deferred tax liabilities	(1,949)	(282)
At end of year	2,813	11,785

9. 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:

2009	Revaluation Deficit RM'000	Unearned Premium Reserve RM'000	Allowance for Diminution in Value of Investments RM'000	Total RM'000
At beginning of year	-	11	12,056	12,067
Recognised in the income statement	88	-	(7,393)	(7,305)
At end of year	88	11	4,663	4,762

2008	Unearned Premium Reserve RM'000	Allowance for Diminution in Value of Investments RM'000	Total RM'000
At beginning of year	8	2,864	2,872
Recognised in the income statement	3	9,192	9,195
At end of year	11	12,056	12,067

Deferred Tax Liabilities of the Company:

2009	Revaluation Surplus RM'000	Accelerated Capital Allowances RM'000	Total RM'000
At beginning of year	-	(282)	(282)
Recognised in the income statement	-	73	73
Recognised in the revaluation reserve	(1,740)	-	(1,740)
At end of year	(1,740)	(209)	(1,949)

2008	Accelerated Capital Allowances RM'000	Total RM'000
At beginning of year	(364)	(364)
Recognised in the income statement	82	82
At end of year	(282)	(282)

10. INVESTMENTS

	2009 RM'000	2008 RM'000
Cost:		
Investment securities		
Money market instruments:		
Malaysian Government Securities	70,737	55,383
Accretion of discounts/(amortisation of premiums)	217	(188)
	70,954	55,195
Islamic corporate bonds	15,651	25,794
Amortisation of premiums	(206)	(252)
	15,445	25,542
Bankers acceptances	81,945	301,521
Quoted securities:		
Shares in Malaysia	29,080	105,477
Shares outside Malaysia	4,423	4,423
	33,503	109,900
Allowance for diminution in value	(14,527)	(39,094)
	18,976	70,806
Unit trusts	12,632	9,028
Total investment securities	199,952	462,092
Deposits and placements with financial institutions	485,771	106,404
Total investments	685,723	568,496

Market value:		
Malaysian Government Securities	71,764	54,904
Islamic corporate bonds	15,459	25,339
Shares quoted in Malaysia	17,321	68,024
Shares quoted outside Malaysia	1,655	2,932
Unit trusts	12,632	9,158

10. INVESTMENTS (Cont'd)

Deposits and placements amounting to RM249,000 (2008: 243,000) represent deposits given by the insureds as collateral for bond guarantees granted to third parties.

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 %
2009				
Malaysian Government Securities	5,364	65,590	70,954	2.51-4.65
Bankers acceptances	81,945	-	81,945	2.05-2.17
Deposits and placements with financial institutions	485,771	-	485,771	1.60-3.85
	573,080	65,590	638,670	
2008				
Malaysian Government Securities	20,060	35,135	55,195	3.23-4.65
Bankers acceptances	301,521	-	301,521	3.58-3.65
Deposits and placements with financial institutions	106,404	-	106,404	3.00-3.75
	427,985	35,135	463,120	

The effective profit rate of the Islamic corporate bonds as at the balance sheet date was between 6.70% and 8.00% (2008: 4.40% and 8.00%) per annum.

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

	2009 RM'000	2008 RM'000
Less than 1 year	5,009	10,021
1 to 5 years	5,167	10,228
More than 5 years	5,269	5,293
	15,445	25,542

11. RECEIVABLES

	2009 RM'000	2008 RM'000
Trade receivables:		
Outstanding premiums including agents, brokers' and co-insurers' balance	10,972	24,939
Due from reinsurers and ceding companies	4,965	2,556
	15,937	27,495
Allowance for doubtful debts	(3,017)	(1,524)
	12,920	25,971
Other receivables:		
Due from fellow subsidiary company*	-	146
Accrued income	6,551	5,070
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	4,108	2,851
Deposits and prepayments	981	651
Tax recoverable	4,381	3,226
Others	657	631
	16,678	12,575
	29,598	38,546

* The amount due from fellow subsidiary company is unsecured, interest free and recoverable on demand.

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.

12. PROVISION FOR OUTSTANDING CLAIMS

	2009 RM'000	2008 RM'000
Provision for outstanding claims	396,762	335,654
Recoverable from reinsurers	(39,002)	(28,682)
Net outstanding claims	357,760	306,972

Included in the provision for outstanding claims is an amount of RM108,595,000 (2008: RM102,081,000) in respect of net provision for Incurred But Not Reported (IBNR) claims as determined by an independent professional actuary.

13. PAYABLES

	2009 RM'000	2008 RM'000
Trade payables:		
Due to reinsurers and ceding companies	6,652	5,495
Due to agents, brokers, co-insurers and insureds	1,776	9,415
	8,428	14,910
Other payables:		
Due to:		
- holding company*	43	42
- fellow subsidiary companies*	974	-
Accruals	633	715
Collateral deposits	257	250
Insurance Guarantee Scheme Fund (IGSF) levy	767	566
Refund premiums	130	108
Service tax payable	202	397
Short term accumulating compensated absences	410	374
Stamp duty payable	1,641	1,422
Unclaimed monies	167	120
Accrual of directors' fees	128	115
Others	888	244
	6,240	4,353
	14,668	19,263

* The amounts due to holding company and fellow subsidiary companies are unsecured, interest free and repayable on demand.

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

14. HIRE PURCHASE CREDITORS

	2009 RM'000	2008 RM'000
Future minimum payments:		
Not later than 1 year	171	300
Later than 1 year and not later than 2 years	161	252
Later than 2 years and not later than 5 years	40	120
Total future minimum payments	372	672
Less: Future finance charges	(22)	(53)
Present value of hire purchase liabilities	350	619

14. HIRE PURCHASE CREDITORS (Cont'd)

	2009 RM'000	2008 RM'000
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	159	286
Later than 1 year and not later than 2 years	152	233
Later than 2 years and not later than 5 years	39	100
	350	619

The hire purchase arrangements at the balance sheet date bore interest between 2.87% and 5.52% (2008: 3.84% and 6.35%) per annum.

15. UNEARNED PREMIUM RESERVES

	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
2009					
At beginning of year	677	114,974	89	52,486	168,226
Increase in unearned premium reserves	83	25,806	21	5,437	31,347
At end of year	760	140,780	110	57,923	199,573
2008					
At beginning of year	778	82,518	99	29,746	113,141
(Decrease)/increase in unearned premium reserves	(101)	32,456	(10)	22,740	55,085
At end of year	677	114,974	89	52,486	168,226

16. SHARE CAPITAL

	Number of shares		Amount	
	2009	2008	2009	2008
	'000	'000	RM'000	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

17. RETAINED PROFITS

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividends paid, credited or distributed to their shareholders, and such dividends are not taxable in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances.

Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 of the Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credits in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007. As at 30 September 2009, the Company has sufficient tax credits in the Section 108 balance to pay franked dividends out of its entire retained earnings.

18. DIVIDEND

			Net Dividend Per share	
	2009	2008	2009	2008
	RM'000	RM'000	Sen	Sen
2nd interim dividend of 10.81 sen per share less tax at 26% in respect of previous year, declared on 28 November 2007 and paid on 5 December 2007	-	8,000	-	8.00

19. OPERATING REVENUE

	2009 RM'000	2008 RM'000
Insurance fund		
Gross premium	362,877	307,714
Investment income (Note 20)	22,140	20,896
	385,017	328,610
Shareholder's fund		
Investment income (Note 20)	610	729
	385,627	329,339

20. INVESTMENT INCOME

	2009 RM'000	2008 RM'000
Insurance fund		
Gross dividends:		
- shares quoted in Malaysia	3,536	3,130
- unit trusts	191	384
Interest income:		
- Malaysian Government Securities	2,656	2,867
- bankers acceptances	5,729	9,132
- deposits and placements with financial institutions	8,309	3,828
Income from Islamic corporate bonds	1,506	1,834
Rental of properties:		
- third parties	45	17
- fellow subsidiary companies	2	5
- holding company	264	264
MMIP investment income	129	123
Amortisation of premiums, net of accretion of discounts	(227)	(688)
	22,140	20,896
Shareholder's fund		
Interest income:		
- bankers acceptances	610	728
- deposits and placements with financial institutions	-	1
	610	729

21. MANAGEMENT EXPENSES

	2009 RM'000	2008 RM'000
Insurance fund		
Executive Directors’ remuneration (Note 22)	624	1,005
Staff salaries and bonus	11,882	12,713
Staff short term accumulating compensated absences	60	(36)
Pension costs - defined contribution plan	1,420	1,520
Other staff benefits	998	1,164
Depreciation of property, plant and equipment	1,006	904
Amortisation:		
- prepaid land lease payments	4	4
- intangible assets	50	52
Auditors’ remuneration	124	103
Non-Executive Directors’ remuneration (Note 22)	128	115
Allowance for doubtful debts	1,503	416
Rental of properties:		
- third parties	387	318
- fellow subsidiary company	129	112
IGSF levy	767	566
Management fees to holding company	833	786
Call centre service charges to fellow subsidiary company	592	564
Rental of equipment:		
- third party	132	135
- fellow subsidiary company	1,356	1,196
Printing and EDP expenses	8,117	6,750
Business development	948	1,862
Bank charges	60	68
Credit card charges	3,556	2,680
Office administration and utilities	1,702	1,894
Other expenses	3,261	3,540
	39,639	38,431
Shareholder’s fund		
Staff salaries and bonus	4	4
Pension costs - defined contribution plan	1	1
	5	5
Other expenses	3	2
	8	7

22. DIRECTORS' REMUNERATION

	2009 RM'000	2008 RM'000
Insurance fund		
Executive Directors:		
- Salaries	535	708
- Bonuses	-	129
- Pension costs - defined contribution plan	69	107
- Benefits-in-kind	42	56
- Short term accumulating compensated absences	(25)	7
- Allowances	45	54
	666	1,061
Non-Executive Directors:		
- Fees	128	115
Total Directors' remuneration	794	1,176
Total Executive Directors' Remuneration excluding benefits-in-kind	624	1,005

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM487,000 (2008: RM563,000).

23. INCOME TAX EXPENSE

	2009 RM'000	2008 RM'000
Income tax:		
Current year's provision	576	3,531
(Over)/under provision in prior years	(374)	46
	202	3,577
Deferred tax		
Relating to timing differences	7,231	(9,319)
Under provision in prior years	1	42
Transfer to/(from) deferred taxation (Note 9)	7,232	(9,277)
	7,434	(5,700)

23. INCOME TAX EXPENSE (Cont'd)

Malaysian current income tax is calculated at the statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the financial year.

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:

	2009 RM'000	2008 RM'000
Profit/(loss) before taxation	32,380	(23,063)
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	8,095	(5,997)
Group tax relief *	-	(475)
Effect of change in tax rate on deferred tax	-	373
(Over)/under provision of income tax in prior years	(374)	46
Under provision of deferred tax in prior years	1	42
Income not subject to tax	(937)	(290)
Expenses not deductible for tax purposes	649	601
Tax expense for the year	7,434	(5,700)

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

As at 30 September 2009, the Company has:

- a tax exempt account balance of approximately RM59,909,000 (2008:RM60,942,000), 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/ (LOSS) PER SHARE (SEN)

Basic earnings per ordinary share of the Company is calculated by dividing the net profit of RM24,946,000 (2008: loss of RM17,363,000) for the financial year by 100,000,000 ordinary shares.

25. NET CLAIMS INCURRED

2009	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
Gross claims paid less salvage	547	167,463	301	4,320	172,631
Reinsurance recoveries	(53)	(10,447)	(177)	(2,143)	(12,820)
Net claims paid (a)	494	157,016	124	2,177	159,811
Net outstanding claims:					
At end of year (b) (Note 12)	590	351,889	390	4,891	357,760
At beginning of year (c)	(553)	(302,010)	(417)	(3,992)	(306,972)
Net claims incurred (a+b-c)	531	206,895	97	3,076	210,599

2008	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
Gross claims paid less salvage	688	146,480	697	3,480	151,345
Reinsurance recoveries	(282)	(8,077)	(642)	(1,834)	(10,835)
Net claims paid (a)	406	138,403	55	1,646	140,510
Net outstanding claims:					
At end of year (b) (Note 12)	553	302,010	417	3,992	306,972
At beginning of year (c)	(596)	(288,285)	(306)	(3,396)	(292,583)
Net claims incurred (a+b-c)	363	152,128	166	2,242	154,899

26. OTHER OPERATING INCOME/(EXPENSES)-NET

	2009 RM'000	2008 RM'000
Insurance fund		
Quoted warrants written off	-	(411)
(Loss)/gain on disposal of:		
- investments	(21,844)	1,181
- property, plant and equipment	-	36
Sundry income	1,124	1,571
Surplus on return of capital from Investment *	456	-
Write back/(allowance) for diminution in value of investments	24,453	(38,525)
Revaluation deficit of property, plant and equipment	(353)	-
Other expenses	(52)	-
Gain on fair value adjustment (Note 6)	10	-
	3,794	(36,148)

* During the year the Company received a final distribution of surplus on return of capital of RM456,000 from Killinghall (Malaysia) Berhad in liquidation.

27. FINANCE COSTS

	2009 RM'000	2008 RM'000
Insurance fund		
Hire-purchase interest	31	24
Others	6	7
	37	31

28. SEGMENT INFORMATION ON CASH FLOW

	Insurance fund		Shareholder's funds		Total	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash flow from:						
Operating activities	1,900	2,868	1	8,005	1,901	10,873
Investing activities	(39)	(225)	-	-	(39)	(225)
Financing activities	(269)	(294)	-	(8,000)	(269)	(8,294)
	1,592	2,349	1	5	1,593	2,354

28. SEGMENT INFORMATION ON CASH FLOW (Cont'd)

	Insurance fund		Shareholder's funds		Total	
	2009	2008	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net increase in cash and cash equivalents	1,592	2,349	1	5	1,593	2,354
Cash and cash equivalents:						
At beginning of year	6,309	3,960	7	2	6,316	3,962
At end of year	7,901	6,309	8	7	7,909	6,316

29. COMMITMENTS AND CONTINGENCIES

(a) Non-cancellable operating lease commitments

Future minimum lease payments are as follows:

	2009 RM'000	2008 RM'000
Not later than 1 year	793	828
Later than 1 year and not later than 5 years	589	715
	1,382	1,543

These represent rental commitments of computer and office equipment.

(b) Other commitments and contingencies

The Company may be required to contribute up to a maximum amount of RM903,000 (2008 : RM767,000) 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:

	2009 RM'000	2008 RM'000
Holding company:		
Rental income	(264)	(264)
Management fees	833	786

30. SIGNIFICANT RELATED PARTY DISCLOSURES (Cont'd)

	2009 RM'000	2008 RM'000
Fellow subsidiaries of Pacific & Orient Berhad group:		
Office rental	129	112
Purchase of office equipment and computers	-	73
Information technology services fee	2,247	2,716
Call centre service charge	592	564
Leasing of office equipment	984	842
Repair and maintenance	69	90
Rental of equipment	2,536	1,156
Staff training	-	11
Related company in which a director has deemed interest:		
Insurance premiums	153	221

Information regarding outstanding balances arising from related party transactions as at 30 September 2009 are disclosed in Note 11 and 13.

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.

(b) Key Management Personnel Compensation:

The key management personnel are defined as Executive Directors.

The remuneration of key management personnel during the year are as follows:

	2009 RM'000	2008 RM'000
Short-term employee benefits		
Salary and other remuneration	535	708
Bonus	-	129
Allowances	45	54
Short term accumulating compensated absences	(25)	7
Benefits-in-kind	42	56
Post-employment benefits:		
Pension cost-defined contribution plan	69	107
	666	1,061

30. SIGNIFICANT RELATED PARTY DISCLOSURES (Cont'd)

(b) Key Management Personnel Compensation: (Cont'd)

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

	ESOS	
	2009	2008
	'000	'000
At beginning/end of year	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. RISK-BASED CAPITAL FRAMEWORK

On 1 January 2009, the Risk-Based Capital Framework ("the RBC Framework"), was introduced as the capital adequacy framework for all insurers licensed under the Insurance Act, 1996. The RBC Framework was imposed by the Minister of Finance, pursuant to Section 23 of the Insurance Act, 1996 as a licensing condition for insurers effective from 1 January 2009. Under the RBC Framework, licensed insurers are required to maintain a supervisory target capital ratio or Minimum Capital Adequacy Ratio ("MCAR"), failing which supervisory actions by BNM of increasing intensity would be taken to resolve the financial position of the insurer. The MCAR is then used as a benchmark against which an insurer would establish its own higher Internal Target Capital.

The Company has not complied with the capital requirements under the RBC Framework and has accordingly, submitted its Capital Management Plan ("CMP") to BNM during the financial year, pursuant to Section 58(2) of the Insurance Act, 1996. The Company is working closely with BNM to finalise the details of the CMP, to ensure compliance with the capital adequacy requirements stipulated in the RBC Framework.

Notwithstanding the above, the Company has adequate assets to meet its liabilities. As at 30 September 2009, the Company has total assets of RM745,066,000 of which RM646,579,000 is represented by cash, money market instruments and deposits with financial institutions, compared to total liabilities of RM572,351,000.

32. SUBSEQUENT EVENT

Subsequent to the financial year ended 30 September 2009, the Company was served with a winding up petition for a sum claimed of RM172,628.70.

The winding up petition was filed in the High Court of Malaya in Kuala Lumpur, on 17 November 2009 and served on the Company on 18 November 2009. The winding up petition shall be heard on 11 February 2010.

The winding up petition arose from a notice pursuant to Section 218 of the Malaysian Companies Act 1965 dated 28 October 2009 served on the Company on 29 October 2009 for the sum of RM172,628.70.

This sum was the High Court enhancement of a Sessions Court judgment on an insurance claim where Liability (and the sum payable by the Company’s insured) was enhanced from 20% to 50%.

The enhancement was subject to the hearing of an appeal to the Court of Appeal fixed for 11 January 2010. An application for stay was fixed for hearing on 17 December 2009. The Company was at all times ready, able and willing to pay the said sum into the Petitioners’ lawyer’s client's account pending the disposal of the appeal. This, the Company was verbally informed, was not acceptable to the Petitioners and/or their lawyer and hence the service of the Section 218 notice.

As it appeared that the stay would not be heard in sufficient time, an application for an Injunction was made by the Company and the injunction was granted on the 18 November 2009. The Petitioners’ lawyer was duly notified of the Injunction Order on the same day. The Petitioners’ lawyer stated that as the winding up petition was filed on the 17 November 2009, they were "unable to comply with your order of injunction".

The Petitioners’ lawyer proceeded to serve on the Company a prematurely filed, undated winding-up petition which, the Company has been advised by its lawyers, was void ab-initio (void from inception).

Subsequently the Petitioners’ lawyer has sought to withdraw the said petition and indeed, on the 18 November 2009, have filed a notice of discontinuance.

The petition cannot however, in accordance with the winding-up rules, be summarily withdrawn.

In compliance with the terms of the Injunction dated 18 November 2009 obtained by the Company, the said sum of RM172,628.70 was paid to the Petitioners’ lawyer’s client’s account to be held pending the hearing and disposal of the Appeal on 11 January 2010. At all times, the Petitioners and/or their lawyer were aware that the Company had more than adequate resources to meet the judgment sum and was willing to pay the said sum to the Petitioners’ lawyer pending the disposal of the appeal.

32. SUBSEQUENT EVENT (Cont'd)

The Company has adequate resources to meet the commitment of the claim and therefore, the petition has no financial and operational impact on the Company. In fact, the sum of RM172,678.70 claimed had already been paid on 18 November 2009, as stated above.

There will be no expected losses arising from the petition as the Company had already paid the sum claimed on 18 November 2009 and the payment was cleared by the Company's bank on 20 November 2009.

The Company has sought legal advice in respect of the wilful filing of the petition with the apparent purpose to force premature payment of an enhanced judgment that has been appealed against and which may be set aside in the Appeal to be heard on 11 January 2010.

The Company has been advised by its lawyers that this petition is void from inception and that despite the attempt at withdrawal, it is necessary to take the procedural steps that the Company is presently pursuing.

Accordingly, the Company has instructed its lawyers to take the necessary steps to have the petition struck out and declared void (in accordance with existing case law).

Based on the advice from the lawyers, existing case law and the fact that the claim has already been paid, the Board of Directors strongly feels that the petition will be struck-out and declared void. Furthermore, this petition does not jeopardize the Company’s financial position and the Company remains financially secure and able to meet its statutory liabilities.

33. 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.

33. FINANCIAL INSTRUMENTS

(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.

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

	2009	2008
	RM'000	RM'000
Rating of corporate bonds on market value basis:		
AA 3	5,116	5,172
A 1	-	4,944
A+	10,343	15,223
	15,459	25,339

33. FINANCIAL INSTRUMENTS (Cont'd)

(c) Credit Risk (Cont'd)

	2009 RM'000	2008 RM'000
Analysis of corporate bonds by industry segments:		
Power	5,116	5,172
Trading/services	-	4,944
Telecommunication	-	4,988
Infrastructure & utilities	10,343	10,235
	15,459	25,339

(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.

33. 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 2009 and 2008, 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:

	2009		2008	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial Assets	RM'000	RM'000	RM'000	RM'000
Investment securities:				
Malaysian Government Securities	70,954	71,764	55,195	54,904

33. FINANCIAL INSTRUMENTS (Cont'd)

(i) Fair Values (Cont'd)

	2009		2008	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial Assets	RM'000	RM'000	RM'000	RM'000
Investment securities:				
Islamic corporate bonds	15,445	15,459	25,542	25,339
Shares quoted in Malaysia	17,321	17,321	67,874	68,024
Shares quoted outside Malaysia	1,655	1,655	2,932	2,932
Unit trusts	12,632	12,632	9,028	9,158
Due from fellow subsidiary companies	-	-	146	146
Financial Liabilities				
Due to holding company	43	43	42	42
Due to fellow subsidiary companies	974	974	-	-
Hire purchase creditors	350	361	619	639

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, other receivables/payables.

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

Carrying value of amount due from/to holding and fellow subsidiary companies approximate their fair values as amounts are recoverable/repayable on demand.

(ii) Malaysian Government Securities and Islamic Corporate Bonds.

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

33. FINANCIAL INSTRUMENTS (Cont'd)

(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.