

**PACIFIC & ORIENT INSURANCE CO.
BERHAD
(12557-W)
(Incorporated in Malaysia)**

**Directors' Report and Audited Financial
Statements
30 September 2011**

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO.BERHAD

Company No. 12557 W
(Incorporated in Malaysia)

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

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 September 2011.

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 principal activity during the financial year.

RESULTS

	RM'000
Net profit for the year	<u>57,095</u>

DIVIDEND

The amount of dividends paid or declared by the Company since 30 September 2010 were as follows:

In respect of the financial year ended 30 September 2011	RM'000
1st interim dividend of 8 sen per share less tax at 25% paid on 28 January 2011	6,000
2nd interim dividend of 26.6 sen per share less tax at 25% paid on 26 August 2011	<u>19,950</u>
	<u>25,950</u>

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

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

Before the income statement, statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for insurers issued by Bank Negara Malaysia ("BNM").

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BAD AND DOUBTFUL DEBTS

Before the income statement, statement of comprehensive income and statement of financial position 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, statement of comprehensive income and statement of financial position 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.

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CONTINGENT AND OTHER LIABILITIES (CONT'D.)

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

In the opinion of the Directors, the results of operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than those as disclosed in the financial statements including the effects arising from the adoption of new and revised Financial Reporting Standards as disclosed in Note 3(a).

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. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth

Y.Bhg. Dato' Abu Hanifah Bin Noordin (resigned on 12 February 2011)

Mr. Chan Thye Seng

Mr. Michael Yee Kim Shing

En. Mohammad Nizar Bin Idris

En. Abdul Rahman Bin Talib

In accordance with Section 129(6) of the Companies Act, 1965, Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim, Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth, Mr. Michael Yee Kim Shing and En. Mohammad Nizar Bin Idris 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.

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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 29 and 30) 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 30 September 2011
	At 1 October 2010	<u>Acquired</u>	<u>Disposed</u>	
<u>Pacific & Orient Berhad</u> (Holding Company)				
Mr. Chan Thye Seng				
- Direct interest	29,609,136	289,600	(2,000,000)	27,898,736
- Indirect interest	108,771,818	-	-	108,771,818
Mr. Michael Yee Kim Shing				
- Indirect interest	1,667,802	-	(130,000)	1,537,802
Y.Bhg. Dato' Abu Hanifah Bin Noordin				
- Indirect interest	1,535,632	-	(530,000)	1,005,632

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.

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STATEMENT ON CORPORATE GOVERNANCE

The Board and management have considered Bank Negara Malaysia's ("BNM") 'Prudential Framework of Corporate Governance for Insurers' ("the Framework") [BNM/RH/GL/003-2] 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 OF DIRECTORS

Board Composition

As at 30 September 2011, the Board comprises six (6) directors. There is a balance in the Board represented by the presence of one (1) Executive Director, four (4) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director.

Board Balance

The Board is a balanced Board, with a complementary blend of expertise with professionals drawn from varied backgrounds, such as legal, accounting, banking, civil service and the armed forces, bringing with them, in depth and diversity in experience, expertise and perspectives to the Company's business operations.

The Independent Non-Executive Directors provide an unbiased and independent view, advice and judgment to take into account the interest, not only the Company but also of shareholder, employees, agencies, insureds and communities in which the Company conducts business.

The roles of the Chairman and Chief Executive Officer ("CEO") are distinct and separate, each has a clearly accepted division of responsibilities to ensure a balance of power and authority.

The Independent Directors have complied with the requirements of Independent Director prescribed by BNM. Further, all Directors have complied with the requirements on restriction of directorships imposed by BNM and also fulfilled the minimum criteria of 'fit and proper person' prescribed under the Insurance Act 1996 and Insurance Regulations 1996.

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 on Minimum Standards for Prudential Management of Insurers [BNM/RH/GL/003-1] and [BNM/RH/GL/003-2] and other directives, in addition to adopting other best practices on corporate governance.

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STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Board Meetings and Attendance

Regular scheduled Board meetings and also ad-hoc Board meetings are held as and when required to receive, deliberate and decide on matters reserved for its decision.

The Board met nine (9) times during the financial year ended 30 September 2011. The details of the attendance of each of the Directors at the Board meetings was as follows:

	<u>Attendance</u>
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Chairman) Independent, Non-Executive Director	9/9
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth Independent, Non-Executive Director	9/9
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	9/9
Mr. Michael Yee Kim Shing Independent, Non-Executive Director	8/9
En. Mohammad Nizar Bin Idris Independent, Non-Executive Director	9/9
En. Abdul Rahman Bin Talib Executive Director, Chief Executive Officer	9/9
Y.Bhg. Dato' Abu Hanifah Bin Noordin (resigned on 12 February 2011) Independent, Non-Executive Director	2/2

Supply of Information

The Directors are provided with the relevant agenda and Board papers in sufficient time prior to Board meetings for their perusal and consideration and to enable them to obtain further explanations and clarification on matters to be deliberated, to facilitate informed decision-making.

The Board has unrestricted access to timely and accurate information. All Directors have access to the advice of the Company Secretary and the Senior Management personnel in the Company and may obtain independent professional advice at the Company's expense in furtherance of their duties.

The Directors are regularly updated on new statutory as well as regulatory requirements relating to the duties and responsibilities of the Directors and the operation of the Company.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Appointments to the Board

The Nominating Committee ("NC"), comprising entirely of Non-Executive Directors, with a majority of them being Independent, is responsible for identifying and recommending to the Board suitable nominees for appointment to the Board and Board Committees. In making its recommendation, the NC is guided by a comprehensive Procedures for Appointment of New Directors, Chief Executive Officer and Key Senior Officers, which it had previously adopted. The final decision on the appointment of a candidate recommended by the NC rests with the whole Board before the application is submitted to BNM for approval.

Re-election

The Articles of Association of the Company provides that at least 1/3 of the Directors will retire by rotation at each Annual General Meeting. A retiring Director is eligible for re-election at the Annual General Meeting.

Directors who are seventy (70) years of age or above are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

The Board has established procedures for assessment of the effectiveness of individual directors, the Board as a whole, the Board Committees, the CEO and key responsible persons. Assessments have been carried out for the CEO, Chief Operating Officer ("COO") and Directors due for reappointment during the financial year.

BOARD COMMITTEES

The Board has established Board Committees to assist the Board in performing its duties and discharging its responsibilities more efficiently and effectively. The Board Committees operate on Terms of Reference approved by the Board and have the authority to examine pertinent issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters lies with the Board. The details of the Board Committees are as follows:

1. Audit Committee ("AC")

The AC was established by the Board on 22 May 1995 to review the Company's processes for producing financial data, its internal control, the independence of the Company's External Auditors and maintain an open line of communication and consultation between the Board, the Internal Auditors, the External Auditors and management.

As at 30 September 2011, the AC comprises four (4) Directors, all of whom are Independent Non-Executive Directors.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

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

The principal duties and functions of the AC are as follows:

- (i) To review and recommend for the Board's approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the internal audit function in the Company.
- (ii) To review the following and report to the Board:
 - (a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors' reports, management letters and liaison with Internal Audit.
 - (b) The internal audit plan of work program, including the appropriateness of the risk management methodology employed to determine the frequency and scope of audit.
 - (c) Independence and reporting relationships of the internal audit function as well as the adequacy and relevance of the scope, functions, competency and resources and the necessary authority to carry out its work.
 - (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 [BNM/RH/GL/003-2] 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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

The AC held four (4) meetings during the financial year. Attendance of the members at the meetings was as follows:

	<u>Attendance</u>
Mr. Michael Yee Kim Shing (Chairman)	4/4
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	4/4
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	4/4
En. Mohammad Nizar Bin Idris	4/4
Y.Bhg. Dato' Abu Hanifah Bin Noordin (resigned on 12 February 2011)	1/1

During the financial year, the AC had reviewed internal audit (including 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.

Risk Management Process, Internal Control System and Governance Practices

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

2. Nominating Committee ("NC")

The NC was established by the Board on 30 January 2002 to establish a documented, formal and transparent procedure for the appointment of Directors, CEO and key senior officers and to assess the effectiveness of Directors, the Board as a whole and the various committees of the Board, the CEO and key senior officers.

As at 30 September 2011, the NC comprises six (6) Directors, the majority of whom are Independent Non-Executive Directors.

The principal duties and functions of the NC are as follows:

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

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

- (ii) To assess and recommend to the Board the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Board Chairman and CEO.
- (iii) To establish a mechanism for the formal assessment of the effectiveness of the Board as a whole, the contribution 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 to be 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.

The NC held three (3) meetings during the financial year. Attendance of the members at the meetings was as follows:

<u>Membership:</u>	<u>Attendance</u>
En. Mohammad Nizar Bin Idris (Chairman) (appointed on 30 November 2010)	1/1
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (appointed on 30 November 2010)	1/1
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	3/3
Mr. Chan Thye Seng	3/3
Mr. Michael Yee Kim Shing	3/3
En. Abdul Rahman Bin Talib	3/3
Y.Bhg. Dato' Abu Hanifah Bin Noordin (resigned on 12 February 2011)	2/2

During the financial year, the NC had conducted an annual assessment of the performance of the CEO and the COO as well as assessed the performance of existing Directors/CEO prior to their reappointment, subject to BNM's approval.

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

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

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

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

3. Remuneration Committee ("RC")

The RC was established by the Board on 3 October 2001 to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and key senior officers and ensuring their compensation is competitive and consistent with the Company's culture, objectives and strategy.

As at 30 September 2011, the RC comprises five (5) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

The principle duties and functions of the RC are as follows:

- (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 COO. The framework/policies are consistent with the requirements of [BNM/RH/GL/003-1].
- (ii) To recommend to the Board the remuneration packages of the CEO and COO. The remuneration packages for the CEO and COO 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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

3. Remuneration Committee ("RC") (Cont'd.)

The RC held two (2) meetings during the financial year. Attendance of the members at the meetings was as follows:

<u>Membership:</u>	<u>Attendance</u>
En. Mohammad Nizar Bin Idris (Chairman) (appointed on 30 November 2010)	1/1
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (appointed on 30 November 2010)	1/1
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	2/2
Mr. Chan Thye Seng	2/2
Mr. Michael Yee Kim Shing	2/2
Y.Bhg. Dato' Abu Hanifah Bin Noordin (resigned on 12 February 2011)	1/1

The RC had reviewed and updated its Terms of Reference during the financial year for the Board's approval. In the meeting of the RC during the financial year, the RC had reviewed and recommended to the Board the remuneration of the CEO and COO.

Remuneration Policy

A remuneration policy has been established to govern the remuneration of the Non-Executive Directors, CEO and COO.

4. Risk Management Committee ("RMC")

The RMC was established by the Board on 17 June 2003 to oversee the senior management's activities in managing the key risk areas of the Company and ensuring that the risk management process is in place and functioning effectively.

As at 30 September 2011, the RMC comprises five (5) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

The principle duties and functions of the RMC are as follows:

- (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 the framework is operating effectively.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

- (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 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 financial year. The RMC has also reviewed the stress test report for recommendation to the Board prior to submission to BNM.

The RMC held five (5) meetings during the financial year. Attendance of the members at the meetings was as follows:

<u>Membership:</u>	<u>Attendance</u>
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	5/5
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth (Chairman)	5/5
Mr. Chan Thye Seng	5/5
Mr. Michael Yee Kim Shing	4/5
En. Mohammad Nizar Bin Idris	5/5
Y.Bhg. Dato' Abu Hanifah Bin Noordin (resigned on 12 February 2011)	1/1

During the financial year, 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.

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 implementing the risk management policy, developing and monitoring risk management procedures and measurement methodologies as well as monitoring the progress of risk mitigation plans.

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STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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 Financial Reporting Standards in Malaysia and give a true and fair view of the financial position of the Company as at 30 September 2011 and of the results and cash flows of the Company for the year then ended.

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 as are reasonably open to them to safeguard the assets of the Company and to prevent and 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 auditors 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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Internal Control and Enterprise Risk Management (Cont'd.)

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

To further strengthen the risk management process, a Risk Management Committee has been established which meets regularly to oversee the development of risk management policies and procedures, monitor and evaluate the numerous risks that may arise from the business activities. A Risk Review Working Committee has also been 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.

HOLDING AND ULTIMATE HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 25 November 2011.

DATO' SERI DATUK DR. HAJI
JALALUDDIN BIN ABDUL RAHIM

ABDUL RAHMAN BIN TALIB

Kuala Lumpur

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, DATO' SERI DATUK DR. HAJI JALALUDDIN BIN ABDUL RAHIM 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 19 to 108, are properly drawn up in accordance with the Financial Reporting Standards and 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 2011 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 25 November 2011.

DATO' SERI DATUK DR. HAJI
JALALUDDIN BIN ABDUL RAHIM

ABDUL RAHMAN BIN TALIB

STATUTORY DECLARATION

I, ABDUL RAHMAN BIN TALIB, being 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 19 to 108 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 25 November 2011)

ABDUL RAHMAN BIN TALIB

Before me,

Commissioner for Oaths

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**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 statement of financial position as at 30 September 2011 of the Company, and the income statement, statement of comprehensive income, 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 19 to 108.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with the Companies Act 1965 and Financial Reporting Standards in Malaysia and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 judgement, 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 of financial statements that give a true and fair view 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.

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**Independent auditors' report to the member of
Pacific & Orient Insurance Co. Berhad
(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 2011 and of the financial performance and cash flows of the Company for the year then ended.

Report 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

Gloria Goh Ewe Gim
No. 1685/04/13(J)
Chartered Accountant

Kuala Lumpur, Malaysia
25 November 2011

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

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

	<u>Note</u>	<u>30.09.2011</u> RM'000	<u>30.09.2010</u> RM'000 (Restated)	<u>01.10.2009</u> RM'000 (Restated)
ASSETS				
Property, plant and equipment	5	17,194	17,813	17,870
Investment properties	6	645	645	645
Prepaid land lease payments	7	322	326	330
Intangible assets	8	97	133	178
Deferred tax assets	9	4,450	3,580	8,934
Investments	10	616,934	587,463	675,636
Reinsurance assets	11	182,404	119,515	58,346
Insurance receivables	12	109,385	59,759	13,450
Other receivables	13	18,684	15,479	16,635
Cash and cash equivalents	14	55,693	60,164	17,996
TOTAL ASSETS		<u>1,005,808</u>	<u>864,877</u>	<u>810,020</u>
EQUITY AND LIABILITIES				
Share capital	15	100,000	100,000	100,000
Revaluation reserve		5,222	5,222	5,222
Available-for-sale reserve		(1,611)	(1,746)	346
Retained profits	16	117,660	86,515	45,443
TOTAL EQUITY		<u>221,271</u>	<u>189,991</u>	<u>151,011</u>
Insurance contract liabilities	17	674,485	622,610	642,785
Insurance payables	18	23,432	40,038	9,634
Hire purchase creditors	19	893	1,003	350
Tax payable		10,648	5,100	-
Borrowings	20	69,606	-	-
Other payables	21	5,473	6,135	6,240
TOTAL LIABILITIES		<u>784,537</u>	<u>674,886</u>	<u>659,009</u>
TOTAL LIABILITIES AND EQUITY		<u>1,005,808</u>	<u>864,877</u>	<u>810,020</u>

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 2011

	<----- Non-Distributable ----->	Distributable				
	<u>Note</u>	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Available -for-sale reserve</u>	<u>Retained profits</u>	<u>Total</u>
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2010						
As previously stated		100,000	5,222	(1,746)	90,842	194,318
Effects of adopting FRS 4		-	-	-	(4,327)	(4,327)
At 1 October 2010, as restated		100,000	5,222	(1,746)	86,515	189,991
Total comprehensive income for the year		-	-	135	57,095	57,230
Dividend	33	-	-	-	(25,950)	(25,950)
At 30 September 2011		100,000	5,222	(1,611)	117,660	221,271
At 1 October 2009						
As previously stated		100,000	5,222	-	67,493	172,715
Effects of adopting Risk Based Capital Framework		-	-	346	(18,708)	(18,362)
Effects of adopting FRS 4		-	-	-	(3,342)	(3,342)
At 1 October 2009, as restated		100,000	5,222	346	45,443	151,011
Total comprehensive income for the year		-	-	(2,092)	41,072	38,980
At 30 September 2010		100,000	5,222	(1,746)	86,515	189,991

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 2011

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000 (Restated)
Operating revenue	22	<u>524,887</u>	<u>472,398</u>
Gross earned premiums	23 (a)	486,283	431,996
Premiums ceded to reinsurers	23 (b)	<u>(154,061)</u>	<u>(90,182)</u>
Net earned premiums		<u>332,222</u>	<u>341,814</u>
Investment income	24	23,197	19,309
Realised gains	25	531	641
Commission income		28,380	19,386
Fair value losses	26	(3,897)	(1,019)
Other operating revenue	27	<u>677</u>	<u>738</u>
Other revenue		<u>48,888</u>	<u>39,055</u>
Gross claims paid	28 (a)	(257,918)	(314,664)
Claims ceded to reinsurers	28 (b)	52,519	24,553
Gross change to contract liabilities	28 (c)	(36,468)	41,267
Change in contract liabilities ceded to reinsurers	28 (d)	<u>44,931</u>	<u>24,208</u>
Net claims incurred		<u>(196,936)</u>	<u>(224,636)</u>
Commission expense		(56,527)	(53,144)
Management expenses	29	(45,313)	(48,080)
Finance costs	34	<u>(4,352)</u>	<u>(24)</u>
Other expenses		<u>(106,192)</u>	<u>(101,248)</u>
Profit before taxation		77,982	54,985
Taxation	31	<u>(20,887)</u>	<u>(13,913)</u>
Net profit for the year		<u>57,095</u>	<u>41,072</u>
Basic earnings per share (sen)	32	<u>57.10</u>	<u>41.07</u>
Diluted earnings per share (sen)	32	<u>57.10</u>	<u>41.07</u>

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

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2011

	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
Net profit for the year	<u>57,095</u>	<u>41,072</u>
Other comprehensive income:		
Available-for-sale reserve		
Net gain/(loss) arising during the year	757	(2,003)
Net realised gain transferred to income statement	(575)	(786)
Tax effects thereon	<u>(47)</u>	<u>697</u>
Other comprehensive income/(loss) for the year, net of tax	<u>135</u>	<u>(2,092)</u>
Total comprehensive income for the year	<u><u>57,230</u></u>	<u><u>38,980</u></u>

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2011

	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
		(Restated)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	77,982	54,985
Adjustments for:		
Depreciation of property, plant and equipment	943	874
Amortisation of prepaid land lease payments	4	4
Amortisation of intangible assets	36	45
Amortisation of premiums, net of accretion of discounts	137	197
Transaction costs of borrowing	21	-
Gain on disposal of property, plant and equipment	20	140
Impairment loss of AFS financial assets	3,897	1,019
Gain on disposal of investments	(550)	(782)
Write off of property, plant and equipment	2	5
Short term accumulating compensated absences	8	38
Dividend income	(720)	(562)
Interest income	(21,953)	(17,865)
Income from Islamic corporate bonds	-	(541)
Allowance for impairment of insurance receivables	1,310	4,979
Write back in allowance for impairment of insurance receivables	(97)	(344)
Write back in allowance for impairment of reinsurance assets	(1,055)	(501)
Bad debts recovered	(48)	(14)
Interest expense	4,326	18
Operating profit before working capital changes	<u>64,263</u>	<u>41,695</u>
Changes in working capital:		
Purchase of investments	-	(10,440)
Disposal of investments	31,110	24,704
(Increase)/decrease in bankers acceptances	(1,564)	81,945
Increase in deposits and placements with financial institutions	(62,011)	(11,056)
Increase in insurance receivables	(50,792)	(50,929)
Increase in other receivables	(5,076)	(4,371)
Increase in reinsurance assets	(61,835)	(60,669)

CASH FLOW STATEMENT (CONT'D.)
FOR THE YEAR ENDED 30 SEPTEMBER 2011

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Changes in working capital: (Cont'd.)			
Increase/(decrease) in insurance contract liabilities		51,874	(20,174)
(Decrease)/increase in insurance payables		(16,606)	30,403
Decrease in other payables		(730)	(142)
Cash (used in)/generated from operations		(51,367)	20,966
Net tax (paid)/recoveries		(16,217)	1,304
Dividends received		374	304
Interest received		23,824	18,929
Income received from Islamic corporate bonds		-	992
Interest paid		(4,263)	(18)
Net cash (used in)/generated from operating activities		<u>(47,649)</u>	<u>42,477</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		69	276
Purchase of property, plant and equipment	5(c)	(281)	(408)
Net cash used in investing activities		<u>(212)</u>	<u>(132)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(25,950)	-
Drawdown of borrowings		69,585	-
Decrease in hire purchase creditors		(245)	(177)
Net cash generated from/(used in) financing activities		<u>43,390</u>	<u>(177)</u>
Net (decrease)/increase in cash and cash equivalents		(4,471)	42,168
Cash and cash equivalents at beginning of year		60,164	17,996
Cash and cash equivalents at end of year	14	<u><u>55,693</u></u>	<u><u>60,164</u></u>

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 2011

1. CORPORATE 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 principal 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 25 November 2011 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 in accordance with Financial Reporting Standards ("FRS"), the Companies Act, 1965, the Insurance Act and Regulations, 1996 and 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 ("IC") Interpretations as described fully in Note 3 to the financial statements.

The financial statements of the Company have been prepared on the historical basis unless disclosed otherwise in the significant accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(a) Basis of Preparation (Cont'd.)

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

(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 different from their 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(b) Property, Plant and Equipment and Depreciation (Cont'd.)

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%
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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Investment Properties (Cont'd.)

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

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

(d) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment 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 reporting 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 reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Financial Instruments

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Arising from the adoption of FRS 139 with effect from 1 October 2010, financial instruments are categorised and measured using accounting policies as mentioned below:

(i) Financial assets

Financial assets are categorised and measured as follows:

(a) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in the income statement as part of other losses or other income.

(b) Held-to-maturity ("HTM") investments

HTM investments are non-derivative securities with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold until maturity.

HTM investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. After initial recognition, HTM investments are measured at amortised cost, using the effective interest method less impairment loss. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Financial Instruments (Cont'd.)

(i) Financial assets (Cont'd)

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially measured at cost plus transaction costs and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

(d) Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivative financial assets not classified in any of the above categories.

AFS financial assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently measured at their fair values.

Fair value gains or losses of AFS financial assets are recognised in AFS reserve in the statement of changes in equity, except for impairment losses and foreign exchange gains and losses arising from monetary items which are recognised in the income statement accordingly. The cumulative gain or loss previously recognised in equity is reclassified into the income statement when the AFS financial assets is derecognised.

Investments in equity instruments that are classified as AFS financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

All financial assets, except those measured at fair value through profit or loss, are subject to review for impairment as described in Note 2(f).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Financial Instruments (Cont'd.)

(ii) Financial liabilities

Financial liabilities are classified as either (a) financial liabilities at fair value through profit or loss or (b) other financial liabilities.

(a) Financial liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses on derivatives recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

The Company has not designated any financial liabilities as at fair value through profit or loss.

(b) Other financial liabilities

The Company's financial liabilities comprise insurance payables, other payables and borrowings.

Insurance payables, other payables and borrowings are recognised initially at their respective fair value net of directly attributable transaction costs and subsequently measured at amortised cost using the cost effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Financial Instruments (Cont'd.)

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

All the financial assets of the Company are recognised using trade date, the date that the Company commits to purchase or sell the asset except for debt instruments which are recognised using settlement date, the date the Company receives or delivers the asset.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(f) Impairment

(i) Financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that a financial asset is impaired includes observable data about loss events such as significant financial difficulty of the issuer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates; and the disappearance of an active market for that financial asset because of financial difficulties, which indicate that there is a measurable decrease in the estimated future cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Impairment (Cont'd)

(i) Financial assets (Cont'd.)

(a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced and the loss is recorded in the income statement.

The Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in income statement, to the extent that the carrying value of asset does not exceed its amortised cost at the reversal date.

(b) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, is transferred to the income statement.

Impairment loss in respect of an equity instrument classified as AFS financial asset are not reversed through the income statement.

Impairment loss on debt instruments classified as AFS financial asset is reversed through the income statement if the increase in the fair value of the debt instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Impairment (Cont'd)

(ii) Non - financial assets

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

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

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

An impairment loss is recognised in the income statement 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(g) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose.

The statement of cashflow is prepared using indirect method.

(h) Insurance Payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using effective interest method. Any difference between initial recognised amount and redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

(j) Product Classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the insurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or have expired or when the contract is transferred to another party.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(l) Insurance Receivables

Insurance receivables are amounts receivable under the contractual terms of an insurance contract. On initial recognition, insurance receivables are measured at fair value based on the consideration given. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest method.

Insurance receivables are assessed at each reporting date for objective evidence of impairment. If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the insurance receivable's original effective interest rate. The impairment loss is recognised in the income statement. The basis for recognition of such impairment loss is as described in Note 2(f)(i)(a).

Insurance receivables are derecognised when the rights to receive cash flows from them have expired or when they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

(m) Commission Expenses and Commission Income

Gross commission expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the income statement in the period in which they are incurred.

(n) Equity Instruments

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.

(o) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) General Insurance Underwriting Results (Cont'd.)

(i) 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.

(ii) Insurance contract liabilities

Insurance contract liabilities comprise premium liabilities and claims liabilities.

Premium liabilities

Premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall level of the Company.

- UPR

The UPR represents the portion of premium income not yet earned at balance sheet date. UPR is computed on the following bases:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method for fire, engineering, and marine hull with a deduction of 15%, bonds and motor with a deduction of 10%, medical with a deduction of 10% - 15% and all other classes of business with a deduction of 25% or actual commission incurred, whichever is lower
- 1/8th method for overseas inward treaty business with a deduction of 20% for acquisition costs
- Non-annual policies with a duration of cover extending beyond one year is time apportioned over the period of the risks.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(o) General Insurance Underwriting Results (Cont'd.)

(ii) Insurance contract liabilities (Cont'd.)

- URR

The URR is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year and also includes allowance for expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premium refunds.

Claims liabilities

Claims liabilities are recognised as the obligation to make future payments in relation to all claims that have been incurred as at the end of the financial year. They are recognised in respect of both direct insurance and inward reinsurance. The value of claims liabilities are based on the best estimate cost which include provision for claims reported, claims incurred but not reported ("IBNR") and direct and indirect claim-related expenses as well as a PRAD calculated at 75% confidence level at the overall level of the Company. The claims liabilities are calculated based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development pattern.

(p) Liability Adequacy Test

At each reporting date, the Company reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Company, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Company compares all contractual cash flows against the carrying value of insurance contract liabilities. Any deficiency is recognised in the income statement.

The estimation of claim and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Company. Based on this, all insurance contract liabilities as at the reporting date are deemed to be adequate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(q) 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 reporting 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.

(r) Other Revenue 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 using the effective interest method.

(s) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(s) Foreign Currencies (Cont'd.)

(ii) Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting 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 for the period in which they arise.

(t) 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 reporting 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 reporting date.

Deferred tax is recognised in the income statement as income or expense, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(u) Leases

(i) Classification

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

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

- A property held under an operating lease that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease [Note 2 (c)]; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(ii) Finance leases - the Company as lessee

Assets acquired by way of hire purchase agreements are stated at an amount equal to the lower of their fair values and the present value of the minimum payments at the inception of the agreements, less accumulated depreciation and impairment losses.

The corresponding liability is included in the statement of financial position 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(u) Leases (Cont'd.)

(ii) Finance leases - the Company as lessee (Cont'd.)

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.

(v) 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.)

(v) 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 income statement as incurred.

(iii) Equity compensation benefits

The holding company's Employee Share Option Scheme ("ESOS") which was granted prior to 31 December 2004 allows the Company's employees to acquire ordinary shares of the holding company.

Under FRS 2 – Share-based Payment, 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 reporting date, revision is made to the 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.

The Company has availed itself of the transitional provision of FRS 2. Under the transitional provision, the Company is not required to recognise employee cost or the corresponding increase within equity as capital contribution from the holding company as the share options from the holding company were granted prior to 31 December 2004.

(w) Contingent Liabilities and Contingent Assets

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Company.

Contingent liabilities and assets are not recognised in the statements of financial position of the Company.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS")

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations

The significant accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2010 except for the adoption of the following FRSs, Amendments to FRSs and IC Interpretations issued by Malaysian Accounting Standards Board ("MASB"):

Effective for financial periods on or after 1 January 2010

FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments - Recognition and Measurement
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
Amendment to FRS 2	Share-based Payment-Vesting Conditions and Cancellations
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 139, FRS 7 and IC Interpretation 9	Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"	
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

Effective for financial periods on or after 1 January 2010

IC Interpretation 11 FRS 2: Group and Treasury Share Transactions

IC Interpretation 13 Customer Loyalty Programmes

IC Interpretation 14 FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective for financial periods on or after 1 March 2010

Amendments to FRS 132 Financial Instruments: Presentation

Effective for financial periods on or after 1 July 2010

FRS 1 First-time Adoption of Financial Reporting Standards

FRS 3 Business Combinations

FRS 127 Consolidated and Separate Financial Statements

Amendments to FRS 2 Share-based Payment

Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations

Amendments to FRS 138 Intangible Assets

Amendments to IC Interpretation 9 IC Interpretation 9 : Reassessment of Embedded Derivatives

IC Interpretation 12 Service Concession Arrangement

IC Interpretation 15 Agreements for the Construction of Real Estate

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

- (a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

Effective for financial periods on or after 1 July 2010 (Cont'd.)

IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation

IC Interpretation 17 Distributions of Non-cash Assets to Owners

Other than the implications as disclosed below, the adoption of the above new/revised FRSs, Amendments to FRSs and IC Interpretations did not have any significant impact on the financial statements of the Company.

Amendments to FRSs 1 and 127, FRSs 8, 119, 120, 127, 128, 131 and 134 contained in the document entitled "Improvements to FRSs (2009)", IC Interpretations 10, 13 and 14 (effective for financial periods on or after 1 January 2010), FRSs 3, 127, IC Interpretation 12, 15 and 16 (effective for financial periods on or after 1 July 2010) are not applicable to the Company.

- (i) FRS 101 - Presentation of Financial Statements (Revised)

FRS 101 introduces changes in the presentation and disclosures of financial statements. The Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the requirement for a statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Company has elected to present this statement as two linked statements.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

FRS 101 was adopted retrospectively with certain comparative figures being restated to conform with current year's presentation.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

(ii) Adoption of FRS 4 – Insurance Contracts

FRS 4 specifies the financial reporting requirements for insurance contracts by any entity that issues such contracts. The key changes arising from the adoption of this Standard is summarised as follows:

a) Gross presentation

FRS 4 requires assets, liabilities, income and expenses arising from insurance contracts to be presented on a gross basis separately from assets, liabilities, income and expenses arising from the related reinsurance arrangements.

b) Qualitative and quantitative disclosures

FRS 4 also requires additional disclosures to assist users of financial statements in understanding the amounts, timing and uncertainty of future cash flows arising from insurance contracts including a reconciliation between the opening and closing balances of insurance contract liabilities and a sensitivity analysis on insurance risk.

Prior to 1 October 2010, known bad debts in the Company 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.

Upon adoption of FRS 4, if there is objective evidence that the Company's insurance receivables and by extension, reinsurance assets are impaired, the carrying amount of the insurance receivables and reinsurance assets is reduced accordingly and an impairment loss is recognised in the income statements. This change has been reflected as a change in accounting policy and is accounted for retrospectively.

(iii) Adoption of FRS 7 – Financial Instruments – Disclosures

Prior to 1 October 2010, information about financial instruments has been disclosed in accordance with the requirements of FRS 132 financial instruments: Disclosure and Presentation.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

(iii) Adoption of FRS 7 – Financial Instruments – Disclosures (Cont'd.)

FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The new disclosures will be included in the notes to the financial statements for the year ending 30 September 2011 including the comparative figures.

(iv) Adoption of FRS 139 – Financial Instruments – Recognition and Measurement

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. In the prior financial year ended 30 September 2010, the Company had adopted the valuation requirements prescribed in the Risk-Based Capital Framework ("the RBC Framework") for its investments which were similar to the requirements of FRS 139. Accordingly, the impact of the adoption of FRS 139 were limited to the following:

- Loans and Receivables

Prior to 1 October 2010, loans and receivables ("L&R") were stated at anticipated realisable values. Specific allowance is made for known doubtful debts which have been individually reviewed and specifically identified as doubtful.

With the adoption of FRS 139, L&R are still classified as "L&R". However, these L&R are now initially measured at cost plus transaction costs that are attributable to their acquisition and subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statements when the receivables are derecognised or impaired, as well as through the amortisation process.

L&R are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the assets.

Specific allowances based on individual assessment are established when the present values of future recoverable cash flows for impaired receivables are lower than the carrying values of the said receivables. Subsequent to individual assessment, the unimpaired receivables are then assessed on a collective basis for impairment based on historical and expected loss rates of receivables.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

(iv) Adoption of FRS 139 – Financial Instruments – Recognition and Measurement (Cont'd.)

- Other Payables

Prior to 1 October 2010, other payables were stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

With the adoption of FRS 139 other payables are still classified as “other payables”. However, these other payables are measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statements when the payables are derecognised, as well as through the amortisation process.

- Borrowings

Prior to 1 October 2010, the Company did not have any borrowings.

With the adoption of FRS 139, borrowings of the current financial year are classified as borrowings and are measured at cost net of transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the borrowings are derecognised, as well as through the amortisation process.

Summary of effects of adopting new and revised FRSs on the current year's financial statements are as follows:

- The adoption of FRS 4 requires retrospective adjustment to be applied at the beginning of the earliest date practicable. Accordingly, the effects of adoption have been accounted for retrospectively as prior year adjustment.
- The Company applied FRS 139 prospectively in accordance with the transitional provisions of the standard.

The effects to the financial position and results of the Company are disclosed in the tables below.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

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

Statement of financial position as at 1 October 2009

<u>Description of change</u>	As previously stated RM'000	FRS 4 Note 3(a)(ii) RM'000	Restated RM'000
Reinsurance assets	-	58,346	58,346
- reclassified from claims liabilities		39,044	
- reclassified from premium liabilities		21,926	
- Allowance for impairment		(2,624)	
Insurance receivables	-	13,450	13,450
- reclassified from receivables		12,962	
- reclassified from insurance payables		1,206	
- Allowance for impairment	-	(718)	
Receivables	29,597	(29,597)	-
- reclassified to insurance receivables		(12,962)	
- reclassified to other receivables		(16,635)	
Other receivables	-	16,635	16,635
- reclassified from receivables		16,635	
Insurance contract liabilities	-	(642,785)	(642,785)
- reclassified from claims liabilities		(421,286)	
- reclassified from premium liabilities		(221,499)	

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

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

Statement of financial position as at 1 October 2009 (Cont'd.)

<u>Description of change</u>	As previously stated RM'000	FRS 4 Note 3(a)(ii) RM'000	Restated RM'000
Claims liabilities	(382,242)	382,242	-
- reclassified to reinsurance assets		(39,044)	
- reclassified to insurance contract liabilities		421,286	
Premium liabilities	(199,573)	199,573	-
- reclassified to reinsurance assets		(21,926)	
- reclassified to insurance contract liabilities		221,499	
Insurance payables	-	(9,634)	(9,634)
- reclassified to insurance receivables		(1,206)	
- reclassified from payables		(8,428)	
Payables	(14,668)	14,668	-
- reclassified to insurance payables		8,428	
- reclassified to other payables		6,240	
Other payables	-	(6,240)	(6,240)
- reclassified from payables		(6,240)	
Retained profit	48,785	(3,342)	45,443
- Allowance for impairment of reinsurance assets		(2,624)	
- Allowance for impairment of insurance receivables		(718)	

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

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

Statement of financial position as at 30 September 2010

<u>Description of change</u>	As previously stated RM'000	FRS 4 Note 3(a)(ii) RM'000	Restated RM'000
Reinsurance assets	-	119,515	119,515
- reclassified from claims liabilities		63,251	
- reclassified from premium liabilities		58,387	
- Allowance for impairment		(2,123)	
Insurance receivables	-	59,759	59,759
- reclassified from receivables		45,077	
- reclassified from insurance payables		16,886	
- Allowance for impairment		(2,204)	
Receivables	60,556	(60,556)	-
- reclassified to insurance receivables		(45,077)	
- reclassified to other receivables		(15,479)	
Other receivables	-	15,479	15,479
- reclassified from receivables		15,479	
Insurance contract liabilities	-	(622,610)	(622,610)
- reclassified from claims liabilities		(380,018)	
- reclassified from premium liabilities		(242,592)	

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

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

Statement of financial position as at 30 September 2010 (Cont'd.)

	As previously stated RM'000	FRS 4 Note 3(a)(ii) RM'000	Restated RM'000
Claims liabilities	(316,767)	316,767	-
- reclassified to reinsurance assets		(63,251)	
- reclassified to insurance contract liabilities		380,018	
Premium liabilities	(184,205)	184,205	-
- reclassified to reinsurance assets		(58,387)	
- reclassified to insurance contract liabilities		242,592	
Insurance payables	-	(40,038)	(40,038)
- reclassified to insurance receivables		(16,886)	
- reclassified from payables		(23,152)	
Payables	(29,287)	29,287	-
- reclassified to insurance payables		23,152	
- reclassified to other payables		6,135	
Other payables	-	6,135	6,135
- reclassified from payables		6,135	

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

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

Statement of financial position as at 1 October 2010 (Cont'd.)

	As previously stated RM'000	FRS 4 Note 3(a)(ii) RM'000	Restated RM'000
Retained Profit	90,842	-	90,842
- Allowance for impairment of reinsurance assets		(2,123)	
- Allowance for impairment of insurance receivables		(2,204)	

Income statement for the year ended 30 September 2010

<u>Description of change</u>	As previously stated RM'000	FRS 4 Note 3(a)(ii) RM'000	Restated RM'000
Management expenses	(47,095)	(985)	(48,080)
Profit before tax	55,970	(985)	54,985
Profit after tax	<u>42,057</u>	<u>(985)</u>	<u>41,072</u>

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs AND ISSUE COMMITTEE INTERPRETATIONS ("IC INTERPRETATIONS") (CONT'D)

(a) Adoption of new and revised FRSs, Amendments to FRSs and IC Interpretations (Cont'd.)

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

Income statement for the year ended 30 September 2011

<u>Description of change</u>	<u>Increase/(decrease)</u>		<u>Total</u> RM'000
	<u>FRS 4</u> Note 3(a)(ii) RM'000	<u>FRS 139</u> Note 3(a)(iv) RM'000	
<u>Effects on:</u>			
Writeback in allowance for impairment of insurance receivables	2,204	-	2,204
Writeback in allowance for impairment of reinsurance assets	2,123	-	2,123
Borrowing costs	-	(394)	(394)
Profit before tax	4,327	(394)	3,933
Taxation	-	(99)	(99)
Profit after tax	<u>4,327</u>	<u>(295)</u>	<u>4,032</u>