Ernst & Young

Pacific & Orient Insurance Co. Berhad

(Company No: 12557 W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

30 September 2012

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

CONTENTS

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

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 September 2012.

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	47,130

DIVIDEND

The amount of dividends paid or declared by the Company since 30 September 2011 were as follows:

In respect of the financial year ended 30 September 2012	RM'000
1st interim dividend of 13.33 sen per share less tax at 25% declared on 3 February 2012 and paid on 8 February 2012	9,997
2nd interim dividend of 16 sen per share less tax at 25% declared on 4 May 2012 and paid on 8 May 2012	12,000
3rd interim dividend of 10.65 sen per share less tax at 25% declared on 16 July 2012 and paid on 18 July 2012	7,988
	29,985

In respect of financial year ended 30 September 2012, the Directors had on 12 November 2012 declared a 4th interim dividend of 16 sen per share less tax at 25% amounting to RM12,000,000. The dividend was paid on 16 November 2012. This dividend has not been reflected in the financial statements for the current financial year but it will be accounted for in equity as an appropriation of retained profits for the financial year ending 30 September 2013. 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").

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 all known bad debts had been written off 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 render the amount to be written off as bad debts or the amount of 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.

CONTINGENT AND OTHER LIABILITIES (CONT'D.)

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due. For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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 the bad debt written off in respect of an insurance receivable amounting to RM20,746,000 as disclosed in Note 29.

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
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, En. Abdul Rahman Bin Talib retires from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangement 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.

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 the director is a member, or with a company in which the director has a substantial financial interest.

DIRECTORS' INTERESTS

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

	Number of Ordinary Shares of RM1.00 Each			
	At 1 October 2011	Acquired	Disposed	At 30 September 2012
Pacific & Orient Berhad (Holding Company)				
Mr. Chan Thye Seng				
- Direct interest	27,898,736	-	-	27,898,736
- Indirect interest	108,771,818	-	-	108,771,818
Mr. Michael Yee Kim Shing				
- Indirect interest	1,537,802	-	(95,000)	1,442,802

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.

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 and Balance

As at 30 September 2012, 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.

The Board possesses 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 presence of the four (4) Independent Non-Executive Directors provides a check and balance in the effective functioning of the Board. Together, they bring an unbiased and independent view, advice and judgment to take into account the interest, not only of the Company but also of shareholder, employees, agencies, insureds and communities in which the Company conducts business.

The Board had conducted an assessment for the financial year ended 30 September 2012 and was satisfied that the Board composition in terms of size, the balance between Executive, Non-Executive and Independent Directors and mix of skills were adequate.

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, the Insurance Regulations 1996 and BNM's 'Guidelines on Fit and Proper for Key Responsible Persons' [BNM/RH/GL 018-3].

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

Board Responsibilities

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Insurance Act 1996, the Insurance Regulations 1996 and BNM's 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.

Board Meetings and Attendance

Board meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so as to enable the Directors to plan ahead. The Board holds regular meetings of no less than six (6) times annually to receive, deliberate and decide on matters reserved for its decision. These include approval of the Company's strategic plan, acquisitions and disposals of assets that are material to the Company, as well as adoption of key policies and procedures. Additional meetings are convened as and when necessary to consider urgent matters that require the Board's expeditious review and consideration.

The Board met seven (7) times during the financial year ended 30 September 2012 to review and deliberate on various matters, including the Company's performance, the strategic plan of the Company, the Company's quarterly financial results and annual financial statements and strategic issues that affect the Company's business operation. All the Directors had complied with the 75% minimum attendance requirement at such meetings. The details of attendance of each of the Directors at the Board meetings was as follows:

	Attendance
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim (Chairman) Independent, Non-Executive Director	7/7
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth Independent, Non-Executive Director	7/7
Mr. Chan Thye Seng Non-Independent, Non-Executive Director	7/7
Mr. Michael Yee Kim Shing Independent, Non-Executive Director	7/7
En. Mohammad Nizar Bin Idris Independent, Non-Executive Director	6/7
En. Abdul Rahman Bin Talib Executive Director, Chief Executive Officer	7/7

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

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.

Appointments to the Board

Pursuant to guidelines issued by BNM, the appointment of a new Director is subject to the prior approval of BNM, and BNM approval will be for a specified term of appointment. The Nominating Committee ("NC") is responsible for identifying, assessing 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.

Reappointment and Re-election

The reappointment of a Director upon expiry of his current term of office is also subject to the prior approval of BNM.

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

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 NC is responsible for assessing the performance of Directors whose term of appointment as approved by BNM is due to expire, as well as those Directors who are subject to re-appointment and re-election at the AGM of the Company and submitting their recommendation to the Board for decision.

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 2012, the AC comprises four (4) Directors, all of whom are Independent Non-Executive Directors.

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 suitability for nomination, appointment and re-appointment of the External Auditors, including assessment of the various relationships between the External Auditors and the Company or any other entity that may impair or appear to impair the External Auditors' objectivity, performance and independence.

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

(d) 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.

(e) 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.

(f) 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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

(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.

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

	Attendance
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	3/4
En. Mohammad Nizar Bin Idris	4/4

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 set up 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 2012, the NC comprises six (6) Directors, with a majority of them being Independent Non-Executive Directors.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

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.

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

Membership:	Attendance
En. Mohammad Nizar Bin Idris (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
Mr. Chan Thye Seng	4/4
Mr. Michael Yee Kim Shing	4/4
En. Abdul Rahman Bin Talib	4/4

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

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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

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

The process of assessing the Directors is an ongoing responsibility of the NC. The NC 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.

In respect of the assessment for the financial year ended 30 September 2012, the Board was satisfied that the Board and the individual Directors have discharged their duties and responsibilities effectively.

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 2012, the RC comprises five (5) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

The principal 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 one (1) meeting during the financial year. Attendance of the members at the meeting was as follows:

Membership:	Attendance
En. Mohammad Nizar Bin Idris (Chairman)	1/1
Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim	1/1
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	1/1
Mr. Chan Thye Seng	1/1
Mr. Michael Yee Kim Shing	1/1

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. Directors do not participate in decisions regarding their own remuneration.

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 2012, the RMC comprises five (5) Directors, all of whom are Non-Executive Directors. A majority of the Directors are Independent.

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

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

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 Management Department 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.

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 2012 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

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions [BNM/RH/GL/003-3] in respect of all its related party transactions. 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.

Financial Reporting

The Board aims to ensure that the quarterly reports and annual financial statements are presented in a manner which provides balanced and comprehensive assessment of the Company's performance and prospect. The Board is assisted by the AC to oversee the financial reporting process of the Company. The AC also reviews the appropriateness of the Company's accounting policies and the changes to these policies to ensure compliance with the accounting and regulatory requirements.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

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 receives periodic reports from management on the scope and performance of the system of internal controls. The Board is assisted by the AC to review audit issues concerning internal controls identified by the Internal Auditors, External Auditors and regulatory examiners. All aspects of the system of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

The Internal Audit function is provided by the Internal Audit Department of the holding company, Pacific & Orient Berhad, based on the Audit Planning Memorandum approved by the Company's AC. The activities of this Department, which reports regularly to the AC, provides the Board with much of the assurance it requires regarding the adequacy and integrity of the system of internal control.

While acknowledging their responsibility for the system of internal control, the Directors are aware that such a system is designed to manage rather than eliminate risks and therefore cannot provide an absolute assurance against material misstatement or loss.

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 Management Department has also been established to assist the Risk Management Committee to discharge its duties. The Risk Management Committee receives regular reports from the Risk Management Department, which in turn receives regular information on risks from the respective risk owners.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D.)

Relationship with External Auditors

The Company, through the AC, has an appropriate and transparent relationship with the External Auditors. In the course of the audit of the Company's financial statements, the External Auditors have highlighted to the AC and the Board, matters that require the AC's/Board's attention. AC meetings are attended by the External Auditors for purposes of presenting their audit plan and report and for presenting their comments on the audited financial statements. The AC meets at least twice a year with the External Auditors to discuss their audit plan, Company's financial statements and the audit findings. The AC also meets with the External Auditors whenever it deems necessary without the present of management.

HOLDING AND ULTIMATE HOLDING COMPANY

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

SIGNIFICANT AND SUBSEQUENT EVENT

Details of a significant and subsequent event are disclosed in Note 42 to the financial statements.

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 28 November 2012.

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 20 to 98, 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 2012 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 28 November 2012.

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 20 to 98 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 28 November 2012)

ABDUL RAHMAN BIN TALIB

Before me,

Commissioner for Oaths

PESURUHJAYA SUMPAH
No: W 602
Nama: KAPT (B) AFFANDI BIN AHMAD
MALAYSIA

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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 2012 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 20 to 98.

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 materal 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.

12557-W

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 2012 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
Ernst & Young
AF: 0039
Chartered Accountants

Brandon Bruce Sta Maria
No. 2937/09/13(J)
Chartered Accountant

Kuala Lumpur, Malaysia
28 November 2012

Company No: 12557 W

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

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2012

	Note	2012 RM'000	2011 RM'000
ASSETS			
Property, plant and equipment	5	21,388	17,194
Investment properties	6	750	645
Prepaid land lease payments	7	318	322
Intangible assets	8	77	97
Deferred tax assets	9	2,471	4,450
Investments	10	772,335	616,934
Reinsurance assets	11	230,978	182,404
Insurance receivables	12	19,944	109,385
Other receivables	13	32,410	18,684
Cash and cash equivalents	14	17,166	55,693
TOTAL ASSETS		1,097,837	1,005,808
EQUITY AND LIABILITIES			
Share capital	15	100,000	100,000
Revaluation reserve		8,799	5,222
Available-for-sale reserve		687	(1,611)
Retained profits	16	134,805	117,660
TOTAL EQUITY		244,291	221,271
Insurance contract liabilities	17	761,452	674,485
Insurance payables	18	16,229	23,432
Hire purchase creditors	19	897	893
Tax payable		-	10,648
Borrowings	20	68,130	69,606
Other payables	21	6,838	5,473
TOTAL LIABILITIES		853,546	784,537
TOTAL LIABILITIES AND EQUITY		1,097,837	1,005,808

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 2012

		<--------- Non-Distributable ------->			Distributable	
	Note	Share capital	Revaluation reserve	Available -for-sale reserve	Retained profits	Total
		RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2011		100,000	5,222	(1,611)	117,660	221,271
Net profit for the year		-	-	-	47,130	47,130
Other comprehensive income for the year		-	3,577	2,298	-	5,875
Total comprehensive income for the year		-	3,577	2,298	47,130	53,005
Dividend	33	-	-	-	(29,985)	(29,985)
At 30 September 2012		100,000	8,799	687	134,805	244,291
At 1 October 2010		100,000	5,222	(1,746)	86,515	189,991
Net profit for the year		-	-	-	57,095	57,095
Other comprehensive income for the year		-	-	135	-	135
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

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

Company No: 12557 W

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

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Note	2012 RM'000	2011 RM'000
Operating revenue	22	543,601	524,887
Gross earned premiums	23 (a)	530,344	486,283
Premiums ceded to reinsurers	23 (b)	(184,005)	(154,061)
Net earned premiums		346,339	332,222
Investment income	24	26,284	23,197
Realised gains	25	643	531
Commission income		45,591	28,380
Fair value losses	26	(200)	(3,897)
Other operating revenue	27	868	677
Other revenue		73,186	48,888
Gross claims paid	28 (a)	(237,445)	(257,918)
Claims ceded to reinsurers	28 (b)	59,588	52,519
Gross change to contract liabilities	28 (c)	(99,994)	(36,468)
Change in contract liabilities ceded to reinsurers	28 (d)	46,596	44,931
Net claims incurred		(231,255)	(196,936)
Commission expense		(56,685)	(56,527)
Management expenses	29	(64,671)	(45,313)
Finance costs	34	(5,658)	(4,352)
Other expenses		(127,014)	(106,192)
Profit before taxation		61,256	77,982
Taxation	31	(14,126)	(20,887)
Net profit for the year		47,130	57,095
Basic earnings per share (sen)	32	47.13	57.10

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 2012

	2012 RM'000	2011 RM'000
Net profit for the year	47,130	57,095
Other comprehensive income:		
Revaluation of land and buildings :		
Surplus from revaluation of land and buildings:		
- Gross surplus from revaluation	4,770	-
- Deferred tax	(1,193)	-
Net gain	3,577	-
Fair value changes on Available-for-sale financial assets:		
- Gross gain/(loss) in fair value changes	3,424	(3,140)
- Impairment loss	415	3,897
- Transferred to income statement upon disposal	(775)	(575)
	3,064	182
- Deferred tax	(766)	(47)
Net gain	2,298	135
Other comprehensive income for the year, net of tax	5,875	135
Total comprehensive income for the year	53,005	57,230

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

Company No: 12557 W

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	2012 RM'000	2011 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	61,256	77,982
Adjustments for:		
Depreciation of property, plant and equipment	936	943
Amortisation of prepaid land lease payments	4	4
Amortisation of intangible assets	33	36
Amortisation of premiums, net of accretion of discounts	75	137
Transaction costs of borrowing	427	21
Gain on disposal of property, plant and equipment	116	20
Impairment loss of AFS financial assets	415	3,897
Bad debt written off	20,746	-
Gain on disposal of investments	(774)	(550)
Gain from fair value adjustments of investment properties	(105)	-
Write off of property, plant and equipment	2	2
Short term accumulating compensated absences	(42)	8
Reversal of revaluation deficit	(110)	-
Dividend income	(1,385)	(720)
Interest income	(23,936)	(21,953)
Allowance for impairment of insurance receivables	456	1,310
Write back in allowance for impairment:		
- insurance receivables	(5,605)	(97)
- reinsurance assets	(1,068)	(1,055)
Bad debts recovered	-	(48)
Interest expense	5,598	4,326
Operating profit before working capital changes	57,039	64,263
Changes in working capital:		
Purchase of investments	(10,293)	-
Disposal of investments	26,719	31,110
Decrease/(increase) in bankers acceptances	1,564	(1,564)
Increase in deposits and placements with financial institutions	(169,720)	(62,011)
Decrease/(increase) in insurance receivables	73,844	(50,792)
Increase in other receivables	(7,089)	(5,076)
Increase in reinsurance assets	(47,505)	(61,835)

CASH FLOW STATEMENT (CONT'D.)
FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Note	2012 RM'000	2011 RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Changes in working capital: (Cont'd.)			
Increase in insurance contract liabilities		86,967	51,874
Decrease in insurance payables		(7,203)	(16,606)
Decrease in other payables		(2,933)	(730)
Cash generated from/(used in) operations		1,390	(51,367)
Net tax paid		(28,753)	(16,217)
Dividends received		350	374
Interest received		22,011	23,824
Interest paid		(1,452)	(4,263)
Net cash used in operating activities		(6,454)	(47,649)
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		90	69
Purchase of property, plant and equipment	5(c)	(148)	(281)
Purchase of intangible assets		(14)	-
Net cash used in investing activities		(72)	(212)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(29,985)	(25,950)
(Repayment)/drawdown of borrowings		(1,709)	69,585
Decrease in hire purchase creditors		(306)	(245)
Net cash (used in)/generated from financing activities		(32,000)	43,390
Net decrease in cash and cash equivalents		(38,526)	(4,471)
Cash and cash equivalents at beginning of year		55,693	60,164
Cash and cash equivalents at end of year	14	17,167	55,693

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 2012

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 28 November 2012 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 Committe ("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 year 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 (CONT'D.)

(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.

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 (CONT'D.)

(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 (CONT'D.)

(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 (CONT'D.)

(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 similiar credit risk characteristics and that group of finacial 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 is 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 (CONT'D.)

(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.

The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Cash and Cash Equivalents

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

The statement of cashflow is prepared using the 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 the 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.)

(j) Product Classification (Cont'd)

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) Reinsurance (Cont'd)

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

(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 advices 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 reporting 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 Underwritting 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 (CONT'D.)

(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 incidental to ownership 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, 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.

(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, AMENDMENTS TO FRSs AND IC INTERPRETATIONS

The significant accounting policies are consistent with those of the audited financial statements for financial year ended 30 September 2011 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 beginning on or after 1 January 2011

Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosure for First-time Adopters
Amendments to FRS 1	Additional Exemptions for First-time Adopters
Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to FRS 7	Improving Disclosures about Financial Instruments

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs, AMENDMENTS TO FRSs AND IC INTERPRETATIONS (CONT'D.)

Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"

IC Interpretation 4	Determining whether an Arrangement contains a Lease
IC Interpretation 18	Transfers of Assets from Customers

Effective for financial periods beginning on or after 1 July 2011

IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments

Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)

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.

FRSs 128, 131 and IC Interpretation 13 contained in the document entitled “Improvements to FRSs (2010)” (effective for financial periods on or after 1 January 2011), Amendments to IC Interpretation 14 (effective for financial periods on or after 1 July 2011) are not applicable to the Company.

Amendments to FRS 7 - Improving Disclosures about Financial Instruments

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Financial instruments measured at fair value are to be disclosed by class in a three-level fair value measurement hierarchy (Level 1, Level 2 and Level 3), with specific disclosure requirements relating to transfers between levels in the hierarchy as well as reconciliation between the beginning and ending balance for Level 3 fair value measurements. The amendments also require enhanced liquidity risk disclosures with respect to financial liabilities. The adoption of the above amendments had resulted in additional disclosures relating to fair value measurements of financial instruments of the Company as presented in Note 41. The liquidity risk disclosure as presented in Note 39 are not impacted by the enhanced liquidity risk requirements.

3.1 CHANGES IN ACCOUNTING FRAMEWORK

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

The Company will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the financial year ending 30 September 2013. In presenting its first MFRS financial statements, the Company may be required to restate the comparative financial statements to amounts reflecting the application of the MFRS Framework. The majority of the adjustments (if any) required on transition will be made, retrospectively, against opening retained profits.

The Company has started a preliminary assessment of the differences between FRS and accounting standards under the MFRS Framework and are in the process of assessing the financial effects of the differences.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical Judgement Made in Applying Accounting Policies

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

(i) Classification between Investment Properties and Property, Plant and Equipment

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

(a) Critical Judgement Made in Applying Accounting Policies (Cont'd.)

(i) Classification between Investment Properties and Property, Plant and Equipment (Cont'd.)

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

(b) Key Sources of Estimation Uncertainty

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

(i) Depreciation and amortisation

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

(ii) Impairment of AFS Financial Assets

The Company reviews its financial assets classified as AFS financial assets at each reporting date to assess whether they are impaired. The Company also records impairment charges on AFS financial assets when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and the duration and extent to which fair value of the financial assets is less than its carrying amount. During the year, the Company impaired quoted and unquoted financial assets with significant decline in fair value greater than 30%, based on the historical or expected volatility of fair values of its respective investments or prolonged period of decline in fair value greater than 12 months.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

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

(iii) Impairment of Loan and Receivables

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers among other factors, the probability of insolvency and significant financial difficulties of the debtors.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

(iv) Impairment of non-financial assets

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

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

(v) Uncertainty in accounting estimates in the general insurance business

The principal uncertainty in the general insurance business arises from technical provisions for premium and claims liabilities.

Premium liabilities comprise the higher of UPR or URR while claims liabilities comprise outstanding claims case estimates and Incurred But Not Reported ("IBNR") claims.

UPR is determined based on estimates of the portion of premium income not yet earned at each reporting date whilst URR is determined based on estimates of expected future payments arising from future events insured under policies in force at each reporting date, including expected future premium refunds.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D.)

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

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

Generally, claims liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions.

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

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claims liabilities may vary from the initial estimates.

The estimates of premium and claims liabilities are therefore sensitive to various factors and uncertainties.

(vi) Deferred tax assets

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

Details of deferred tax assets are disclosed in Note 9.

5. PROPERTY, PLANT AND EQUIPMENT

	<----Valuation		---->	<----		Cost	---->	
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012								
Valuation/Cost:								
At beginning of year	520	541	15,380	6,147	2,201	1,646	3,355	29,790
Revaluation surplus	1,340	193	3,237	-	-	-	-	4,770
Reversal of revaluation deficit	-	-	110	-	-	-	-	110
Transfer*	-	(53)	(2,168)	-	-	-	-	(2,221)
Additions	-	-	-	-	400	33	25	458
Disposals	-	-	-	-	(410)	(2)	-	(412)
Write-offs	-	-	-	-	-	(28)	-	(28)
At end of year	1,860	681	16,559	6,147	2,191	1,649	3,380	32,467
Accumulated Depreciation:								
At beginning of year	-	40	1,603	6,115	551	1,304	2,983	12,596
Charge for the year	-	13	565	14	216	55	73	936
Transfer*	-	(53)	(2,168)	-	-	-	-	(2,221)
Disposals	-	-	-	-	(205)	(1)	-	(206)
Write-offs	-	-	-	-	-	(26)	-	(26)
At end of year	-	-	-	6,129	562	1,332	3,056	11,079
Net carrying value:								
At end of year	1,860	681	16,559	18	1,629	317	324	21,388

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

5. PROPERTY, PLANT AND EQUIPMENT

	<---Valuation	---	--->	<---	---	Cost	---	--->
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011								
Valuation/Cost:								
At beginning of year	520	541	15,380	7,614	2,188	1,602	3,199	31,044
Additions	-	-	-	-	169	91	156	416
Disposals	-	-	-	-	(156)	(24)	-	(180)
Write-offs	-	-	-	(1,467)	-	(23)	-	(1,490)
At end of year	520	541	15,380	6,147	2,201	1,646	3,355	29,790
Accumulated Depreciation:								
At beginning of year	-	26	1,037	7,543	419	1,292	2,914	13,231
Charge for the year	-	14	566	38	203	53	69	943
Disposals	-	-	-	-	(71)	(20)	-	(91)
Write-offs	-	-	-	(1,466)	-	(21)	-	(1,487)
At end of year	-	40	1,603	6,115	551	1,304	2,983	12,596
Net carrying value:								
At end of year	520	501	13,777	32	1,650	342	372	17,194

5. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

(a) Freehold land and buildings and leasehold buildings were revalued as at 30 September 2012 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

The net book values of the freehold land and buildings and leasehold buildings of the Company had the cost model been applied, compared to the revaluation model as at 30 September 2012 are as follows:

	Net Carrying Value		Net Carrying Value	
	2012	2012	2011	2011
	Under Revaluation Model RM'000	Under Cost Model RM'000	Under Revaluation Model RM'000	Under Cost Model RM'000
Freehold land	1,860	380	520	380
Freehold buildings	681	289	501	297
Leasehold buildings	16,559	7,905	13,777	8,225
	19,100	8,574	14,798	8,902

(b) The net book value of motor vehicles held under hire purchase arrangements are RM1,575,000 (2011: RM1,384,000).

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

	2012 RM'000	2011 RM'000
Cash	148	281
Hire purchase	310	135
	458	416

6. INVESTMENT PROPERTIES

	2012 RM'000	2011 RM'000
At beginning of year	645	645
Gain on fair value adjustments (Note 26)	105	-
At end of year	750	645
Analysed as:		
Freehold buildings	455	415
Leasehold buildings	295	230
	750	645

Investment properties were revalued as at 30 September 2012 by Messrs. Rahim & Co., an independent professional valuer. Fair value is determined by reference to open market values using the comparison method.

7. PREPAID LAND LEASE PAYMENTS

	2012 RM'000	2011 RM'000
Long term leasehold land:		
At beginning of year	322	326
Amortisation (Note 29)	(4)	(4)
At end of year	318	322

8. INTANGIBLE ASSETS

	2012 RM'000	2011 RM'000
Computer software and licences:		
Cost		
At beginning of year/end of year	1,115	1,102
Accumulated amortisation:		
At beginning of year	1,005	969
Amortisation (Note 29)	33	36
At end of year	1,038	1,005
Net Book Value	77	97

9. DEFERRED TAX

	2012 RM'000	2011 RM'000
At beginning of year	4,450	3,580
Transfer from income statement (Note 31)	(20)	915
Transfer to AFS reserve	(766)	(45)
Transfer to Revaluation reserve	(1,193)	-
At end of year	2,471	4,450

Presented after appropriate offsetting as follows:

	2012	2011
Deferred tax assets	5,847	6,419
Deferred tax liabilities	(3,376)	(1,969)
At end of year	2,471	4,450

9. DEFERRED TAX (CONT'D.)

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

Deferred Tax Assets

2012	Revaluation Deficit RM'000	Premium Liabilities RM'000	Changes in Fair Value of AFS Financial assets RM'000	Accumulated Impairment Loss RM'000	Total RM'000
At beginning of year	88	6	537	5,788	6,419
Recognised in the income statement	(28)	1	-		(27)
Recognised in the AFS reserve	-	-	(537)	(8)	(545)
At end of year	60	7	-	5,780	5,847

9. DEFERRED TAX (CONT'D.)

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

Deferred Tax Assets

2011	Revaluation Deficit RM'000	Premium Liabilities RM'000	Changes in Fair Value of AFS Financial assets RM'000	Accumulated Impairment Loss RM'000	Total RM'000
At beginning of year	88	11	582	4,827	5,508
Recognised in the income statement	-	(5)	-	961	956
Recognised in the AFS reserve	-	-	(45)	-	(45)
At end of year	88	6	537	5,788	6,419

9. DEFERRED TAX (CONT'D.)

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

Deferred Tax Liabilities

	Changes in Fair value of Investments RM'000	Revaluation Surplus RM'000	Accelerated Capital Allowances RM'000	Total RM'000
2012				
At beginning of year	-	(1,740)	(229)	(1,969)
Recognised in the income statement	(229)	(1,193)	15	(1,407)
At end of year	(229)	(2,933)	(214)	(3,376)
2011				
At beginning of year		(1,740)	(188)	(1,928)
Recognised in the income statement		-	(41)	(41)
At end of year		(1,740)	(229)	(1,969)

10. INVESTMENTS

	2012 RM'000	2011 RM'000
(a) Available-for-sale ("AFS") financial assets:		
At fair value:		
Quoted shares	24,107	12,187
Unquoted shares	803	816
Unit trusts	13,817	13,403
Total available-for-sale financial assets	38,727	26,406
(b) Held-to-maturity ("HTM") investments:		
At amortised cost:		
Malaysian Government Securities*	15,557	40,364
Amortisation of premiums, net of accretion of discount	(420)	(151)
Total held-to-maturity investments	15,137	40,213

10. INVESTMENTS (CONT'D.)

	2012 RM'000	2011 RM'000
(c) Loan and receivables ("L&R"):		
At amortised cost:		
Deposits and placements with licensed financial institutions:		
Commercial banks	559,096	465,451
Investment banks	159,375	83,300
Bankers acceptances	-	1,564
	718,471	550,315
Total investments	772,335	616,934
At fair value:		
* Malaysian Government Securities	15,186	40,423

(d) Carrying values of investments

2012	AFS RM'000	HTM RM'000	L&R RM'000	Total RM'000
At beginning of year	26,406	40,213	550,315	616,934
Additions	10,631	-	-	10,631
Placements	-	-	801,368	801,368
Disposals	(959)	-	-	(959)
Redemption	-	(5,001)	-	(5,001)
Maturities	-	(20,000)	(633,212)	(653,212)
Fair value gains recorded in other comprehensive income	3,064	-	-	3,064
Movement in impairment loss	(415)	-	-	(415)
Amortisation of premiums, net of accreation of discount	-	(75)	-	(75)
At end of year	38,727	15,137	718,471	772,335

10. INVESTMENTS (CONT'D.)

(d) Carrying values of investments

	AFS RM'000	HTM RM'000	L&R RM'000	Total RM'000
2011				
At beginning of year	30,347	70,376	486,740	587,463
Additions	308	-	-	308
Placements	-	-	63,575	63,575
Disposals	(534)	-	-	(534)
Redemption	-	(5,025)	-	(5,025)
Maturities	-	(25,000)	-	(25,000)
Fair value gains recorded in other comprehensive income	182	-	-	182
Movement in impairment loss	(3,897)	-	-	(3,897)
Amortisation of premiums	-	(263)	-	(263)
Accretion of discount	-	125	-	125
At end of year	26,406	40,213	550,315	616,934

Deposits and placements amounting to RM191,850 (2011: RM250,210) represent deposits given by the insureds as collateral for bond guarantees granted to third parties.

11. REINSURANCE ASSETS

	Note	2012 RM'000	2011 RM'000
Reinsurance of insurance contracts			
Claims liabilities	17.1	154,778	108,182
Premium liabilities	17.2	76,200	75,290
		230,978	183,472
Allowance for impairment		-	(1,068)
		230,978	182,404

12. INSURANCE RECEIVABLES

	2012 RM'000	2011 RM'000
Outstanding premiums including agents, brokers' and co-insurers' balance	9,700	10,779
Due from reinsurers and ceding companies	11,311	108,084
	21,011	118,863
Allowance for impairment	(1,067)	(9,478)
	19,944	109,385

13. OTHER RECEIVABLES

	2012 RM'000	2011 RM'000
Due from fellow subsidiary company*	289	352
Accrued income	5,779	3,166
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	20,247	12,057
Deposits and prepayments	1,277	1,885
Tax recoverable	4,390	368
Others	428	856
	32,410	18,684

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

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

14. CASH AND CASH EQUIVALENTS

	2012 RM'000	2011 RM'000
Deposits and placements with licensed commercial banks (with maturity of less than three months)	11,500	50,894
Cash and bank balances	5,666	4,799
	17,166	55,693

15. SHARE CAPITAL

	Number of shares 2012 '000	Number of shares 2011 '000	Amount 2012 RM'000	Amount 2011 RM'000
Authorised shares of RM1.00 each	100,000	100,000	100,000	100,000
Issued and fully paid ordinary shares of RM1.00 each	100,000	100,000	100,000	100,000

16. RETAINED PROFITS

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

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

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credits in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007. As at 30 September 2012, the Company has sufficient tax credits in the Section 108 balance to pay franked dividends out of its entire retained earnings.

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position below its internal target.

As at 30 September 2012, the Company has a Capital Adequacy Ratio in excess of the minimum requirement as stipulated in the RBC Framework.

17. Insurance Contract Liabilities

	<---------- 30 September 2012 ---------->			<---------- 30 September 2011 ---------->		
	Gross RM'000	Reinsurance RM'000 (Note 11)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 11)	Net RM'000
General insurance	761,452	(230,978)	530,474	674,485	(183,472)	491,013

The general insurance contract liabilities and its movements are further analysed as follows:

		<---------- 30 September 2012 ---------->			<---------- 30 September 2011 ---------->		
	Note	Gross RM'000	Reinsurance RM'000 (Note 11)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 11)	Net RM'000
Provisions for claims reported		384,593	(108,123)	276,470	309,698	(74,913)	234,785
Provision for Incurred But Not Reported ("IBNR")		84,147	(28,850)	55,297	69,817	(20,208)	49,609
Provision of Risk Margin for Adverse Deviation ("PRAD")		47,740	(17,805)	29,935	36,971	(13,061)	23,910
Claims Liabilities	17.1	516,480	(154,778)	361,702	416,486	(108,182)	308,304
Premium Liabilities	17.2	244,972	(76,200)	168,772	257,999	(75,290)	182,709
		761,452	(230,978)	530,474	674,485	(183,472)	491,013

17. Insurance Contract Liabilities (Cont'd)

17.1 Claims Liabilities

	Note	<---------- 30 September 2012------------>			<------------30 September 2011-------------->		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At beginning of year		416,486	(108,182)	308,304	380,018	(63,251)	316,767
Claims incurred in the current accident year (direct and facultative)		176,474	(63,592)	112,882	174,314	(56,197)	118,117
Adjustment to claims incurred in prior accident years (direct and facultative)		133,743	(36,923)	96,820	106,311	(31,981)	74,330
Claims incurred during the year (treaty inwards claims)		14,964	-	14,964	4,386	(160)	4,226
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidential level		10,769	(4,744)	6,025	8,566	(8,355)	211
Movement in claims handling expenses		1,489	(925)	564	809	(757)	52
Claims paid during the year	28	(237,445)	59,588	(177,857)	(257,918)	52,519	(205,399)
At end of year		516,480	(154,778)	361,702	416,486	(108,182)	308,304

17. Insurance Contract Liabilities (Cont'd)

17.2 Premium Liabilities

		<---------- 30 September 2012------------>			<------------30 September 2011-------------->		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At beginning of year		257,999	(75,290)	182,709	242,592	(58,387)	184,205
Premiums written during the year	23	517,317	(184,915)	332,402	501,690	(170,964)	330,726
Premiums earned during the year	23	(530,344)	184,005	(346,339)	(486,283)	154,061	(332,222)
At end of year		244,972	(76,200)	168,772	257,999	(75,290)	182,709

20. BORROWINGS

	Note	Effective Interest rate per annum	Maturity	2012 RM'000	2011 RM'000
Unsecured					
Term loan	(a)	8.09 %	2020	-	69,606
Subordinated Notes	(b)	8.01%	2022	68,130	-
				68,130	69,606
Amount due more than 5 years				68,130	69,606

(a) During the previous year ended 30 September 2011, the Company obtained a 10-year unsecured term loan of RM70,000,000 less transaction costs from its holding company at an interest rate of 8.00 % per annum. The term loan was fully repaid on 27 June 2012.

(b) On 19 June 2012, the Company had established a Subordinated Notes ("Sub Notes") Programme with an aggregate nominal value of RM150,000,000 issuable in tranches.

The first tranche of Sub Notes was issued on 27 June 2012 with a nominal value of RM70,000,000 at a discounted subscription price of RM99.05. The Sub Notes were issued for a tenure of 10 years on a 10 non-callable 5 basis, with a coupon rate of 7.60% per annum.

Of the RM70,000,000 Sub Notes, RM35,000,000 were subscribed by its holding company whilst the remaining RM35,000,000 were subscribed by a third party.

The proceeds from the issuance of the Sub Notes were used to repay its unsecured term loan of RM70,000,000 previously granted by its holding company.

18. INSURANCE PAYABLES

	2012 RM'000	2011 RM'000
Due to reinsurers and ceding companies	14,104	21,363
Due to agents, brokers, co-insurers and insureds	2,125	2,069
	16,229	23,432

19. HIRE PURCHASE CREDITORS

	2012 RM'000	2011 RM'000
Future minimum payments:		
Not later than 1 year	331	303
Later than 1 year and not later than 2 years	563	486
Later than 2 years and not later than 5 years	82	199
Total future minimum payments	976	988
Less: Future finance charges	(79)	(95)
Present value of hire purchase liabilities	897	893
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	292	260
Later than 1 year and not later than 2 years	526	439
Later than 2 years and not later than 5 years	79	194
	897	893

The hire purchase arrangements at the reporting date bore interest between 2.72% and 5.48% (2011: 3.40% and 5.80%) per annum.

21. OTHER PAYABLES

	2012 RM'000	2011 RM'000
Due to holding company*	39	105
Accruals	785	776
Collateral deposits	188	246
Refund premiums	204	192
Service tax payable	128	323
Short term accumulating compensated absences	413	455
Stamp duty payable	1,704	1,843
Unclaimed monies	251	224
Accrual of directors' fees	245	263
Sundry creditors	1,063	738
Interest payable on Subordinated Notes	1,399	-
Others	419	308
	6,838	5,473

* The amount due to holding company is unsecured, interest free and repayable on demand.

Carrying value of amount due from holding company approximates the fair value as the amount is recoverable on demand.

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

22. OPERATING REVENUE

	2012 RM'000	2011 RM'000
Insurance fund		
Gross premium (Note 23 (a))	517,317	501,690
Investment income (Note 24)	26,284	23,197
	543,601	524,887

23. NET EARNED PREMIUMS

		Note	2012 RM'000	2011 RM'000
(a)	Gross premiums	17.2	517,317	501,690
	Change in premium liabilities		13,027	(15,407)
	Gross earned premiums		530,344	486,283
(b)	Gross premiums ceded to reinsurers	17.2	(184,915)	(170,964)
	Change in premium liabilities		910	16,903
	Premiums ceded to reinsurers		(184,005)	(154,061)
	Net Earned Premiums		346,339	332,222

24. INVESTMENT INCOME

	2012 RM'000	2011 RM'000
Dividend income:		
- shares quoted in Malaysia	1,062	420
- unit trusts	324	300
Interest income:		
- Malaysian Government securities	1,192	2,382
- bankers acceptances	-	891
- deposits and placements with financial institutions	22,743	18,680
Amortisation of premiums, net of accretion of discounts	(75)	(137)
Rental of properties:		
- third parties	14	148
- holding company	256	128
Investment income:		
- Malaysian Motor Insurance Pool ("MMIP")	672	353
- Malaysian Reinsurance Berhad ("MRB")	96	32
	26,284	23,197

25. REALISED GAINS

	2012 RM'000	2011 RM'000
Realised (losses)/gains:		
- Property, plant and equipment	(116)	(20)
- AFS financial assets:		
Quoted in Malaysia	775	575
- HTM investments:		
Malaysian Government securities	(2)	(25)
- Foreign exchange	(14)	1
	643	531

26. FAIR VALUE LOSSES

	2012 RM'000	2011 RM'000
Fair value gains/(losses):		
Investment properties (Note 6)	105	-
Reversal of revaluation deficit of property, plant and equipment	110	-
Impairment loss of AFS financial assets	(415)	(3,897)
	(200)	(3,897)

27. OTHER OPERATING REVENUE

	2012 RM'000	2011 RM'000
Other operating revenue/(expenses):		
Sundry income	1,206	680
Tax penalty	(334)	-
Assets written off	(2)	(2)
Other expenses	(2)	(1)
	868	677

28. NET CLAIMS INCURRED

	Note	2012 RM'000	2011 RM'000
(a) Gross claims paid	17.1	(237,445)	(257,918)
(b) Claims ceded to reinsurers	17.1	59,588	52,519
(c) Gross change to contract liabilities		(99,994)	(36,468)
(d) Change in contract liabilities ceded to reinsurers		46,596	44,931
		(231,255)	(196,936)

29. MANAGEMENT EXPENSES

	Note	2012 RM'000	2011 RM'000
Executive Directors' remuneration	30	676	553
Staff salaries and bonus		16,313	15,250
Staff short term accumulating compensated absences		(42)	13
Pension costs - defined contribution plan		2,028	1,826
Other staff benefits		1,928	1,374
Depreciation of property, plant and equipment		936	943
Amortisation:			
- prepaid land lease payments	7	4	4
- intangible assets	8	33	36
Auditors' remuneration		160	144
Non-Executive Directors' remuneration	30	245	263
Directors' training		-	50
Allowance for impairment of insurance receivables	39	456	1,310
Bad debt written off *		20,746	-
Write back in allowance for impairment of :			
- insurance receivables	39	(5,605)	(97)
- reinsurance assets		(1,068)	(1,055)
Bad debts recovered		-	(48)
Rental of properties:			
- third parties		477	466
- fellow subsidiary company		142	135
Perbadanan Insurans Deposit Malaysia levy		811	553
Management fees to holding company		913	866
Call centre service charges to fellow subsidiary company		542	612
Rental of equipment:			
- third party		138	130
- fellow subsidiary company		2,491	1,906
Printing and EDP expenses		8,930	8,267
Business development		1,753	1,128
Bank charges		43	57
Credit card charges		5,039	4,994
Office administration and utilities		1,584	1,910
MMIP expenses		1,151	109
Other expenses		3,847	3,614
		64,671	45,313

* The one-off bad debt written off of RM20,746,000 was in respect of the commutation of a reinsurance contract with a reinsurer during the financial year.

30. DIRECTORS' REMUNERATION

	2012 RM'000	2011 RM'000
Executive Director:		
- Salary	433	398
- Bonus	135	64
- Pension costs - defined contribution plan	72	60
- Benefits-in-kind	32	32
- Short term accumulating compensated absences	-	(5)
- Allowance	36	36
	708	585
Non-Executive Directors:		
- Fees	245	263
- Benefits-in-kind	15	5
Total Directors' remuneration	968	853
Total Executive Directors' remuneration excluding benefits-in-kind	676	553

The number of executive and non-executive directors whose total remuneration received during the year falls within the following bands is:

	2012	2011
Executive director:		
RM300,001 - RM600,000	1	1
Non-executive directors:		
Below RM40,000	1	2
RM40,001 - RM50,000	3	3
RM50,001 - RM60,000	1	1

31. INCOME TAX EXPENSE

	2012 RM'000	2011 RM'000
Current income tax:		
Malaysian		
- Current	14,516	21,802
- Over provision in prior years	(410)	-
	14,106	21,802
Deferred tax:		
Relating to timing differences		
- Current	10	(937)
- Under provision in prior years	10	22
Transfer to deferred taxation (Note 9)	20	(915)
	14,126	20,887

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

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

	2012 RM'000	2011 RM'000
Profit before taxation	61,256	77,982
Taxation at Malaysian statutory tax rate of 25%	15,314	19,496
Over provision of income tax in prior years	(410)	-
Under provision of deferred tax in prior years	10	22
Income not subject to tax	(1,164)	(142)
Expenses not deductible for tax purposes	376	1,511
Tax expense for the year	14,126	20,887

31. INCOME TAX EXPENSE (CONT'D.)

As at 30 September 2012, the Company has:

- a tax exempt account balance of approximately RM60,140,000 (2011: RM60,009,000), subject to agreement with the Inland Revenue Board, which is available for distribution.
- sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt account balance to frank the payment of net dividends out of its entire retained profits.

32. EARNINGS PER ORDINARY SHARE (SEN)

Basic earnings per ordinary share of the Company is calculated by dividing the net profit of RM47,130,000 (2011: RM57,095,000) for the financial year by 100,000,000 ordinary shares.

33. DIVIDENDS

	2012 RM'000	2011 RM'000
1st interim dividend of 13.33 sen per share less tax at 25% in respect of current financial year, declared on 3 February 2012 and paid on 8 February 2012	9,997,000	6,000,000
2nd interim dividend of 16 sen per share less tax at 25% in respect of current financial year, declared on 4 May 2012 and paid on 8 May 2012	12,000,000	19,950,000
3rd interim dividend of 10.65 sen per share less tax at 25% in respect of current financial year, declared on 16 July 2012 and paid on 18 July 2012	7,988,000	-
	29,985,000	25,950,000

In respect of financial year ended 30 September 2012, the Directors had on 12 November 2012 declared a 4th interim dividend of 16 sen per share less tax at 25% amounting to RM12,000,000. The dividend was paid on 16 November 2012. This dividend has not been reflected in the financial statements for the current financial year but it will be accounted for in equity as an appropriation of retained profits for the financial year ending 30 September 2013.

34. FINANCE COSTS

	2012 RM'000	2011 RM'000
Hire-purchase interest	56	59
Interest expense on borrowings	5,597	4,286
Others	5	7
	5,658	4,352

35. COMMITMENTS AND CONTINGENCIES

(a) Non-cancellable operating lease commitments

Future minimum lease payments are as follows:

	2012 RM'000	2011 RM'000
Not later than 1 year	1,991	1,786
Later than 1 year and not later than 5 years	1,747	1,821
	3,738	3,607

These represent operating lease commitments for computer and office equipment, and office rental of the Company.

36. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	2012 RM'000	2011 RM'000
(Income)/ expense:		
Holding company:		
Rental income	(256)	(256)
Management fees	913	866
Interest expenses on term loan	4,143	4,265
Interest expenses on Subordinated Notes	700	-
Fellow subsidiaries of Pacific & Orient Berhad Group:		
Office rental	145	135
Information technology service fees	2,631	2,336
Call centre service charges	542	612
Leasing of office equipment	1,801	1,519
Repair and maintenance	125	97
Purchase of property, plant and equipment	-	79
Rental of equipment	3,246	2,735

36. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

	2012 RM'000	2011 RM'000
Related company in which a director has deemed interest:		
Insurance premiums	-	(21)
Capital transaction:		
Holding company-Subordinated Notes	34,065	-

Information regarding outstanding balances arising from related party transactions as at 30 September 2012 are disclosed in Notes 13, 20 and 21.

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

(b) Key Management Personnel Compensation:

The key management personnel are defined as Executive Directors.

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

	2012 RM'000	2011 RM'000
Short-term employee benefits		
Salary and other remuneration	433	398
Bonus	135	64
Allowances	36	36
Short term accumulating compensated absences	-	(5)
Benefits-in-kind	32	32
Post-employment benefits:		
Pension cost-defined contribution plan	72	60
	708	585

37. RISK MANAGEMENT FRAMEWORK

(a) Risk Management Framework

The Board of Directors, with the assistance of the Management, had implemented a Risk Management Framework within the Company in June 2004, with a primary goal to provide a consistent approach to risks and to support the overall business objectives of the Company. The Framework was last updated in August 2010 to be in line with the Joint Australian/New Zealand Standard AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines.

The Board is supported in its role by a Risk Management Committee ("RMC"), which was set up with clear terms of reference from the Board. The RMC is assisted by a Risk Management Department ("RMD"). This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to the RMC, RMD, management, and all the way down to the staff and the Internal Audit Department.

Processes	Parties responsible
Board of Directors	Approving the Risk Management Framework and risk philosophy/policy. Concurring with risk appetite. Ensuring adequate resources and knowledge of management and staff involved in the risk management process. Reviewing risk portfolio and being apprised of most significant risks.
Risk Management Committee ("RMC")	Overseeing risk management activities. Approving risk management procedures and measurement methodologies. Ensuring effective implementation of objectives outlined in risk management framework. Reporting higher risk exposures to the Board.

37. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

Processes	Parties responsible
Risk Management Department ("RMD")	Ensuring effective implementation and maintenance of Risk Management Framework. Implementing risk management philosophy/policy. Acting as central contact and guide to enterprise risk management ("ERM") issues. Coordinating ERM among the various business units. Monitoring progress of risk mitigation plans. Preparing quarterly reports to RMC. Maintaining documentation of ERM process. Communicating ERM information to create risk awareness within the Company.
Management	Directly responsible for all ERM activities of the Company. Ensuring presence of positive internal environment.
Business Units / Risk Owners	Performing operational risk management, monitoring and reporting risk exposures in areas/activities within their control.
Staff	Taking cognisance of operational risks. Reporting any new or escalating risks identified to the risk owners.
Internal Audit Department	Providing independent assurance on adequacy and effectiveness of risk management process established by the Company and recommending improvements thereto.

37. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(a) Risk Management Framework (Cont'd.)

The Company's Risk Management Framework requires that all of its businesses and functions establish processes for identifying, evaluating and managing the key risks faced by the Company. The Framework is based on the concept of 'three lines of defence' i.e. day-to-day risk management by the risk owners, risk oversight by the RMD and RMC and independent assurance by the Audit Committee, supported by the Internal Audit function.

Regular reports on key risks identified and the management of such risks are presented regularly to the RMC for its review and endorsement. Periodically, the RMC also reviews the adequacy and continued relevance of the Risk Management Framework, particularly in relation to mechanisms for principal risks identification, assessment, treatment, monitoring and review and communication.

(b) Capital Management

The Company is subject to the capital adequacy requirements of the Risk Based Capital ("RBC") Framework as implemented by Bank Negara Malaysia to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The RBC capital adequacy requirements involves the Company maintaining an adequate level of capital based on the risk exposures of the Company. This externally imposed capital requirement has been complied with by the Company to-date for the financial year ended 30 September 2012.

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

37. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(b) Capital Management (Cont'd)

The Company's capital management policy for its insurance business is to hold sufficient capital to cover the statutory requirements based on the RBC Framework, including any additional amounts required by the regulator.

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to manage capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds and borrowings. The Company also utilises, where efficient to do so, sources of capital such as reinsurance and securitisation in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis, and assessed against both the forecast available capital and the expected internal rate of return including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Board is provided with regular updates on the Company's capital adequacy position.

(c) Governance and Regulatory Framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or national disasters.

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

(d) Asset Liability Management ("ALM") Framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk.

37. RISK MANAGEMENT FRAMEWORK (CONT'D.)

(d) Asset Liability Management ("ALM") Framework (Cont'd)

The Company manages these positions within an ALM Framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principle technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The Company's ALM is:

- Integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities; and

- Forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

38. INSURANCE RISK

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

Insurance contracts transfer risk to the Company by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events.

The Company underwrites various general insurance contracts which are mostly on an annual coverage and annual premium basis with the exception of short term policies such as Marine Cargo which covers the duration in which the cargo is being transported.

The Company also underwrites some non-annual policies with coverage period more than one year such as Extended Warranty Programme (EWP), Contractor's All Risks and Engineering, Bonds and Workmen Compensation.

The majority of the insurance business written by the Company is Motor and Personal Accident insurance. Other insurance business includes Fire, EWP, Contractor's All Risks and Engineering, Workmen Compensation, Professional Indemnity and other miscellaneous classes of insurance.

The principal insurance risks faced by the Company include risks of actual claims and benefit payments differing from expectation, risks arising from natural disasters, risks arising from the fluctuations in timing, frequency and severity of claims, as well as the adequacy of premiums and reserves. For longer tail claims that take some years to settle, there is also inflation risk.

38. INSURANCE RISK(CONT'D.)

The Company's objectives of managing insurance risks are to enhance the long-term financial performance of the business to achieve sustainable growth in profitability, strong asset quality and to continually optimise shareholders' value. The Company seeks to write those risks that it understands and that provide a reasonable opportunity to earn an acceptable profit.

The Company has the following policies and processes to manage its insurance risks:

- An underwriting policy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility to ensure underwriting profitability. Acceptance of risk is guided by a set of underwriting guidelines with set limits on underwriting capacity, and authority to individuals based on their specific expertise.

- A claim management and control system to pay claims and control waste or fraud.

- Claim review policies to assess all new and ongoing claims and possible fraudulent claims are investigated to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

- The Company purchases reinsurance as part of its risks mitigation programme. The objectives for purchasing reinsurance are to control exposure to insurance losses, reduce volatility and optimise the Company's capital efficiency. Reinsurance is ceded on quota share, proportional and non-proportional basis. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The table below sets out the concentration of the Company's business by type of insurance product.

	2012			2011		
General	Gross	Reinsurance	Net	Gross	Reinsurance	Net
insurance business	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	446,579	(150,495)	296,084	401,297	(121,632)	279,665
Personal Accident	33,210	(1,889)	31,321	33,401	(2,778)	30,623
Fire	1,944	(854)	1,090	2,382	(1,151)	1,231
Miscellaneous	48,611	(30,767)	17,844	49,203	(28,500)	20,703
	530,344	(184,005)	346,339	486,283	(154,061)	332,222

38. INSURANCE RISK(CONT'D.)

The table below sets out the concentration of the Company's insurance contract liabilities by type of insurance product.

	2012			2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Premium liabilities	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	207,342	(62,607)	144,735	211,686	(67,129)	144,557
Personal Accident	9,636	(52)	9,584	10,217	(292)	9,925
Fire	784	(238)	546	868	(307)	561
Miscellaneous	27,210	(13,303)	13,907	35,228	(7,562)	27,666
	244,972	(76,200)	168,772	257,999	(75,290)	182,709

	2012			2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims Liabilities	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	474,533	(123,477)	351,056	378,876	(84,055)	294,821
Personal Accident	3,235	(195)	3,040	3,057	(384)	2,673
Fire	716	(183)	533	954	(133)	821
Miscellaneous	37,996	(30,923)	7,073	33,599	(23,610)	9,989
	516,480	(154,778)	361,702	416,486	(108,182)	308,304

Key Assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, discounting factors, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

38. INSURANCE RISK(CONT'D.)

Sensitivities

The general insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on Gross and Net liabilities, Profit before Tax and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
30 September 2012					
Average claim cost	+1%	5,165	3,617	3,617	2,713
Average number of claims	+1%	5,165	3,617	3,617	2,713
Average claim settlement period	decreased by 6 months	7,503	5,422	5,422	4,067
30 September 2011					
Average claim cost	+1%	4,165	3,083	3,083	2,312
Average number of claims	+1%	4,165	3,083	3,083	2,312
Average claim settlement period	decreased by 6 months	7,078	5,604	5,604	4,203

* Impact on equity reflects adjustments for tax, where applicable.

Claims development table

The following tables show the Company's businesses estimated cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date.

38. INSURANCE RISK(CONT'D.)

Claims development table

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 30 September 2012 are adequate. However, the possibility of inadequacy of such balances should not be ruled out as the actual experience is likely to differ from the projected to different degrees, depending on the level of uncertainty. This is primarily due to the nature of the reserving process and the elements of uncertainty inherent in the exercise.

Gross general insurance contract liabilities for 2012:

Accident year	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total
At end of accident year		148,941	151,087	162,214	196,979	244,459	248,638	258,790	
One year later		154,577	147,069	167,906	219,140	224,613	258,486		
Two years later		152,267	150,671	175,999	229,690	248,128	0		
Three years later		156,386	155,691	184,415	240,169	0	0		
Four years later		161,649	156,174	189,681	0	0	0		
Five years later		168,863	159,278	0	0	0	0		
Six years later		169,998	0	0	0	0	0		
Current estimate of cumulative claims incurred		169,998	159,278	189,681	240,169	248,128	258,486	258,790	
At end of accident year		(41,663)	(44,902)	(49,370)	(50,154)	(53,559)	(56,892)	(59,518)	
One year later		(91,570)	(88,759)	(97,337)	(115,161)	(128,273)	(139,326)		
Two years later		(102,259)	(99,359)	(131,466)	(167,843)	(176,648)	0		
Three years later		(117,503)	(141,543)	(161,286)	(198,971)	0	0		
Four years later		(151,465)	(150,637)	(173,133)	0	0	0		
Five years later		(161,885)	(150,864)	0	0	0	0		
Six years later		(161,352)	0	0	0	0	0		
Cumulative payments to date		(161,352)	(150,864)	(173,133)	(198,971)	(176,648)	(139,326)	(59,518)	
Gross general insurance outstanding liability (direct and facultative)	13,387	8,646	8,414	16,548	41,198	71,480	119,160	199,272	478,105
Gross general insurance outstanding liability (treaty inward)									25,971
Best estimate of claims liabilities									504,076
Claims handling expenses									10,082
PRAD at 75% confidence level									47,740
Effects of discount									(45,418)
Gross general insurance contract liabilities per statement of financial position									516,480

38. INSURANCE RISK(CONT'D.)

Net general insurance contract liabilities for 2012:

Accident year	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		135,820	136,809	149,493	181,995	200,596	173,248	168,193	
One year later		146,840	138,655	154,419	191,742	191,470	177,930		
Two years later		144,957	138,977	159,251	206,975	209,032			
Three years later		148,670	143,414	167,316	215,442				
Four years later		150,836	143,648	172,480					
Five years later		153,671	147,232						
Six years later		154,962							
Current estimate of cumulative claims incurred		154,962	147,232	172,480	215,442	209,032	177,930	168,193	
At end of accident year		(39,761)	(42,701)	(45,880)	(47,147)	(47,979)	(41,748)	(42,761)	
One year later		(87,471)	(84,274)	(90,963)	(107,204)	(111,233)	(99,202)		
Two years later		(97,702)	(93,739)	(122,373)	(155,194)	(153,500)			
Three years later		(112,157)	(132,197)	(150,088)	(183,493)				
Four years later		(144,465)	(139,280)	(159,150)					
Five years later		(150,819)	(139,031)						
Six years later		(150,120)							
Cumulative payments to date		(150,120)	(139,031)	(159,150)	(183,493)	(153,500)	(99,202)	(42,761)	
Net general insurance outstanding liability (direct and facultative)	11,776	4,842	8,201	13,330	31,949	55,532	78,728	125,432	329,790
Net general insurance outstanding liability (treaty inward)									25,971
Best estimate of claims liabilities									355,761
Claims handling expenses									8,830
PRAD at 75% confidence level									29,935
Effects of discount									(32,824)
Net general insurance contract liabilities per statement of financial position									361,702

39. FINANCIAL RISKS

The Company is exposed to a variety of financial risks arising from their operations. The key financial risks are credit risk, liquidity risk, and market risk.

The Company's overall financial risk management objective is to ensure that the Company creates value for its shareholders whilst minimising potential exposure to adverse effects on its financial performance and positions.

39. FINANCIAL RISKS (CONT'D.)

The policies and processes taken by the Company to manage these risks are set out below:

(a) Credit Risk

Credit risk is the risk of financial loss that may arise from the failure of counterparties in meeting their contractual obligations.

The Company's primary exposure to credit risk arises through its investments in debt instruments, receivables arising from sales of insurance policies and obligations of reinsurers through reinsurance contracts.

The Company has the following policies and processes to manage and mitigate its credit risks:

- Financial loss from an investment in debt instrument may arise from a change in the value of the investment due to a rating downgrade or default. Before acquiring a debt instrument from an issuer, an evaluation of the issuer's credit risk is undertaken by the Company. Ratings assigned by external rating agencies are also used in the evaluation to ensure optimal credit quality of the individual debt instrument concerned. The Company also has an Investment Policy which sets out the limits on which the Company may invest in each counterparty so as to ensure that there is no concentration of credit risk.

- Insurance receivables which arise mainly from premiums collected on behalf of the Company by appointed agents, brokers and other intermediaries are monitored on daily basis to ensure adherence to the Company's Credit Policy. Internal guidelines are also established to evaluate the Company's intermediaries before their appointment as well as setting credit terms/limits to the appointees concerned.

- Receivables from reinsurance contracts are monitored on a monthly basis to ensure compliance with payment terms. The Company also monitors the credit quality and financial conditions of its reinsurers on an ongoing basis to reduce the risk exposure. When selecting its reinsurers, the Company considers their relative financial security which is assessed based on public rating information, annual reports and other financial data.

39. FINANCIAL RISKS (CONT'D.)

Credit exposure

The table below shows the maximum exposure to credit risk for the financial assets components on the statement of financial position.

	2012 RM'000	2011 RM'000
Held-to-maturity investments	15,137	40,213
Reinsurance assets	230,978	182,404
Insurance receivables	19,944	109,385
Deposits and placements with financial institutions	718,471	550,315
Other receivables	32,410	18,684
Cash and cash equivalents	17,166	55,693
	1,034,106	956,694

The above financial assets are not secured by any collaterals or credit enhancements.

Credit exposure by credit quality (Cont'd)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties. AAA is the highest possible rating.

2012	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not Rated RM '000	Total RM '000
Held-to-maturity investments	-	-	-	-	15,137	15,137
Reinsurance assets	92,613	3,284	9,288	2,884	122,909	230,978
Insurance receivables	3,483	986	5,988	138	9,349	19,944
Other receivables	-	-	-	-	32,410	32,410
Deposits and placements with financial institutions	288,595	305,436	23,543	-	100,897	718,471
Cash and cash equivalents	15,896	1,235	-	-	35	17,166
	400,587	310,941	38,819	3,022	280,737	1,034,106

2011	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not Rated RM '000	Total RM '000
Held-to-maturity investments	-	-	-	-	40,213	40,213
Reinsurance assets	99,221	2,696	8,501	897	71,089	182,404
Insurance receivables	92,613	2,034	2,913	3	11,822	109,385
Other receivables	-	-	-	-	18,684	18,684
Deposits and placements with financial institutions	178,060	183,590	103,801	-	84,864	550,315
Cash and cash equivalents	48,447	723	6,518	-	5	55,693
	418,341	189,043	121,733	900	226,677	956,694

39. FINANCIAL RISKS (CONT'D.)

Age analysis of financial assets that are past due but not impaired

	Note	< 30 days RM'000	31-60 days RM'000	61-90 days RM'000	91-180 days RM'000	> 180 days RM'000	Total RM'000
2012							
Insurance receivables	12	8,005	88	162	1,736	6,900	16,891

	Note	< 30 days RM'000	31-60 days RM'000	61-90 days RM'000	91-180 days RM'000	> 180 days RM'000	Total RM'000
2011							
Insurance receivables	12	9,296	34	358	27,040	30,298	67,026

Financial assets that are neither past due nor impaired

	2012 RM'000	2011 RM'000
Insurance receivables	3,053	42,359

Insurance receivables that are past due but not impaired are creditworthy debtors.

Insurance receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Company.

The insurance receivables are not secured by any collaterals or credit enhancements.

39. FINANCIAL RISKS (CONT'D.)

Impaired

The Company's insurance receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Note	Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
2012				
Movement in allowance accounts:-				
At beginning of year		9,478	-	9,478
Allowance for impairment loss	29	456	-	456
Write back of impairment loss	29	(5,605)	-	(5,605)
Write off		(3,262)	-	(3,262)
At end of year		1,067	-	1,067

	Note	Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
2011				
Movement in allowance accounts:-				
At beginning of year		8,323	-	8,323
Allowance for impairment loss	29	1,310	-	1,310
Write back of impairment loss	29	(97)	-	(97)
Write off		(58)	-	(58)
At end of year		9,478	-	9,478

Insurance receivables that are individually impaired at the reporting date relate to debtors that are in significant financial difficulties or have defaulted on payments. These insurance receivables are not secured by any collaterals or credit enhancements.

39. FINANCIAL RISKS (CONT'D.)

Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under normal and stressed conditions.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company-wide liquidity risk management policy setting out the assessment and determination of what constitutes liquidity risk for the Company is established. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Risk Management Committee.

- Guidelines on asset allocations, portfolio limit structures and maturity profiles of assets are implemented in order to ensure sufficient funding is available to meet insurance, investment contract and other payment obligations. As part of its liquidity management, the Company maintains sufficient level of cash and cash equivalents to meet expected and to a lesser extent unexpected outflows.

- Contingency funding plans were established to mitigate funding requirements arising from emergency and other unforeseen cash calls. Such funding plans include the arrangement of credit line with banks and funding from the holding company.

- The Company has entered into treaty reinsurance contracts that contain a "cash call" clause which permits the Company to make cash call on claims and receive immediate payments for large losses without waiting for usual periodic payment procedures to occur.

39. FINANCIAL RISKS (CONT'D.)

Maturity Analysis

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest/profit payable.

For insurance contract liabilities, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as these are not contractual obligations.

	Carrying Value RM '000	up to a year* RM '000	1 - 2 years RM '000	2 - 5 years RM '000	5 - 15 years RM '000	Over 15 years RM '000	Total RM '000
2012							
Insurance contract liabilities	516,480	191,050	91,806	138,159	92,744	2,721	516,480
Insurance payables	16,229	16,229	-	-	-	-	16,229
Hire Purchase Creditors	897	292	526	79	-	-	897
Other payables	6,838	6,838	-	-	-	-	6,838
Total liabilities	540,444	214,409	92,332	138,238	92,744	2,721	633,188
2011							
Insurance contract liabilities	416,486	139,151	63,189	142,697	71,233	216	416,486
Insurance payables	23,432	23,432	-	-	-	-	23,432
Hire Purchase	893	260	439	194	-	-	893
Other payables	5,473	5,473	-	-	-	-	5,473
Total liabilities	446,284	168,316	63,628	142,891	71,233	216	446,284

* Expected settlement is within 12 months from the reporting date.

39. FINANCIAL RISKS (CONT'D.)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of exposures: foreign exchange rates (currency risk), market interest rates (interest rate/profit yield risk) and market prices (price risk).

The key features of the Company's market risk management practices and policies are as follows:

- A Company wide market-risk policy setting out the evaluation and determination of what constitutes market risk for the Company is established.
- Policies and limits have been established to manage market risk. Market risk is managed through portfolio diversification and changes in asset allocation. The Company's policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Company's risk management policy after taking cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As the Company's business is conducted primarily in Malaysia, the Company's functional and presentation currency is Malaysian Ringgit. The Company's main foreign exchange risk arises from its reinsurance activities and overseas claims settlements which are normally settled and realised within 12 months and accordingly the impact arising from sensitivity in changes in foreign exchange rates is deemed to be minimal.

(ii) Interest rate/profit yield risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates/profit yield.

The Company is exposed to interest rate risk primarily through its investments in fixed income securities and deposits placements. Interest rate risk is managed by the Company on an ongoing basis.

The Company has no significant concentration of interest rate/profit yield risk.

The impact on profit before tax at +/- 25 basis points change in the interest rate, with all other variables held consistent, is insignificant to the Company given that it has minimal floating rate financial instruments.

39. FINANCIAL RISKS (CONT'D.)

Market risk (Cont'd.)

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), regardless whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to price risk arises mainly from its investments in quoted shares and unit trusts whose values will fluctuate as a result of changes in market prices.

The Company manages its price risk by ensuring that its investments in quoted shares and unit trusts are within the limits set out in the Company's Investment Policy. The Company does not have any major concentration of price risk related to such investments.

The analysis below is performed for reasonably possible movements in equity price with all other variables held constant, showing the impact on statement of comprehensive income and equity (due to changes in fair value of available-for-sale financial assets).

		2012 Impact on		2011 Impact on	
	Changes in variables	Profit before tax RM'000	Equity* RM'000	Profit before tax RM'000	Equity* RM'000
Market price	+10%	-	2,905	-	1,980
Market price	-10%	-	(2,905)	-	(1,980)

* Impact on equity reflects adjustments for tax, when applicable.

39. FINANCIAL RISKS (CONT'D.)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but mitigates them by establishing a control framework and by monitoring and responding to potential risks. Controls include segregation of duties, access controls, authorisation, reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit. Business risk, such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

40. REGULATORY CAPITAL REQUIREMENTS

The Company's capital management policy is to optimise the efficient and effective use of resources to maximise the return on equity and provide an appropriate level of capital to protect policyholders and meet regulatory requirements.

The Company is required to comply with the regulatory capital requirement prescribed in the RBC Framework which is imposed by the Ministry of Finance pursuant to Section 23 of the Insurance Act, 1996, as a licensing condition for insurers. Under the RBC Framework guidelines issued by BNM, insurance companies are required to satisfy a minimum capital adequacy ratio of 130%. The Company has a capital adequacy ratio in excess of the minimum requirement.

The capital structure of the Company as at 30 September 2012, as prescribed under the RBC Framework is provided below:

	2012 RM'000	2011 RM'000
Eligible Tier 1 Capital		
Share capital (paid-up)	100,000	100,000
Retained earnings	134,805	117,660
	234,805	217,660
Tier 2 Capital		
Capital instruments which qualify as Tier 2 Capital	68,130	69,606
Revaluation reserve	8,799	5,222
AFS reserve	687	(1,611)
	77,616	73,217
Amounts deducted from Capital	(2,471)	(4,450)
Total Capital Available	309,950	286,427

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

FRS 7 Financial Instruments: Disclosures requires the classification of financial instruments held at fair value according to a hierarchy that reflects the significance of inputs used in the measurements, in particular, whether the inputs used are observable or unobservable. The following levels of hierarchy are used for determining and disclosing the fair value of the Company's financial instruments:

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs that are based on observable market data, either directly or indirectly

Level 3 - Inputs that are not based on observable market data

In accordance with the transitional provisions of Amendments to FRS 7 - Improving Disclosures about Financial Instruments, the Company had applied the disclosure requirements of the Standard prospectively and, hence, comparative disclosures have not been provided.

As at 30 September 2012, the Company held the following financial assets that are measured at fair value:

2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
AFS financial assets				
Quoted shares	24,107	-	-	24,107
Unit trusts	13,817	-	-	13,817
Unquoted shares	-	803	-	803
	37,924	803	-	38,727

Comparative figures have not been presented for 30 September 2011 by virtue of the exemption provided in paragraph 44G of FRS 7.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

(a) The carrying amounts of financial assets and financial liabilities of the general business and shareholder's fund at the reporting date approximated their fair values except as set out below:

	2012 Carrying amount RM'000	2011 Carrying amount RM'000	2012 Fair value RM'000	2011 Fair value RM'000
Financial Assets				
HTM investments	15,137	40,213	15,186	40,423
Financial Liabilities				
Hire purchase creditors	897	893	913	906

(b) Determination of fair value

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

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

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

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

41. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

Fair Values (Cont'd.)

(ii) HTM investments

- Malaysian Government Securities

The fair values of Malaysian Government Securities are indicative values obtained from the secondary market.

(iii) AFS financial assets

- Quoted shares

The fair values of quoted shares are determined by reference to the stock exchange quoted market closing prices at the close of the business at the reporting date.

- Unit trusts

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

- Islamic corporate bonds

The fair values of Islamic corporate bonds are indicative values obtained from the secondary market.

(iv) Hire purchase creditors

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

(v) Subordinated Notes

The fair value of Subordinated Notes is determined by the present value of the estimated future cash flows at the end of the tenure of the Subordinated Notes.

42. SIGNIFICANT AND SUBSEQUENT EVENT

The Minister of Finance of Malaysia had, by a letter from Bank Negara Malaysia dated 26 November 2012, pursuant to Section 67 of the Insurance Act 1996, approved the following:

(i) The holding company to dispose 49% of its equity interest in the Company to Sanlam Emerging Markets Proprietary Limited; and

(ii) The holding company to transfer one share of the Company to a fellow subsidiary company, Pacific & Orient Nominees Services (Tempatan) Sdn. Bhd.

The above disposal is subject to the execution of a sale and purchase agreement.