

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

(12557 - W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

For Financial Year Ended 30 September 2006

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

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(Incorporated in Malaysia)

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PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 30 September 2006.

PRINCIPAL ACTIVITY

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

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

RESULTS

	RM'000
Net profit for the year	14,389
Accumulated profits brought forward	<u>52,566</u>
	66,955
Dividend	<u>(8,000)</u>
Accumulated profits carried forward	<u><u>58,955</u></u>

DIVIDEND

Since 30 September 2005, the Company paid an interim dividend of 8.00 sen per share tax exempt amounting to RM8,000,000 on 12 June 2006 in respect of the financial year ended 30 September 2006.

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

RESERVES AND PROVISIONS

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

PROVISION FOR OUTSTANDING CLAIMS

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

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

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

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

In accordance with Section 129(2) of the Companies Act, 1965, Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-appointment.

In accordance with Article 75 of the Company's Articles of Association, Y.Bhg. Dato' Abu Hanifah Bin Noordin and Mr. Ong Eng Soon retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Notes 15 and 16 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

	<u>Number of Ordinary Shares of RM1.00 Each</u>				
	As at 1 October 2005	Bought	Share Dividend*	Sold	As at 30 September 2006
<u>The Company</u>					
Mr. Chan Thye Seng					
- Indirect interest	100,000,000	-	-	-	100,000,000
<u>Pacific & Orient Berhad</u> (Holding Company)					
Mr. Chan Thye Seng					
- Direct interest	7,867,854	-	452,871	110,000	8,210,725
- Indirect interest	50,172,787	-	2,888,260	1,392,000	51,669,047
Mr. Michael Yee Kim Shing					
- Indirect interest	1,188,000	-	57,466	275,200	970,266
Y.Bhg. Dato' Abu Hanifah Bin Noordin					
- Indirect interest	2,468,571	-	131,566	300,000	2,300,137

* This represents two distributions of treasury shares by the holding company as share dividends on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 4 January 2006 and 16 June 2006.

DIRECTORS' INTERESTS (Cont'd)

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

Number of Share Options Under ESOS of RM1.00 Each

<u>Names of option holders</u>	<u>Exercise Price</u> <u>RM</u>	<u>As at</u> <u>1 October</u> <u>2005</u>	<u>Granted</u>	<u>Exercised</u>	<u>As at</u> <u>30 September</u> <u>2006</u>
Mr. Chan Thye Seng	1.27	900,000	-	-	900,000
Mr. Ong Eng Soon	1.27	850,000	-	-	850,000
En. Abdul Rahman Bin Talib	1.27	850,000	-	-	850,000

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

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

CORPORATE GOVERNANCE

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

Board Responsibilities

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

Board Composition, Attendance and Meetings

As at 30 September 2006, the Board comprises six directors with wide-ranging skills and experience. There is a balance in the Board represented by the presence of two Non-Independent Executive Directors, three Independent Non-Executive Directors and one Non-Independent, Non-Executive Director. During the financial year, the attendance of the Directors at the Board meetings was as follows:

Board Composition, Attendance and Meetings (Cont'd)

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

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

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

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

Directors' Responsibility Statement

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

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

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

Management Accountability

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

Corporate Independence

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

Internal Control and Enterprise Risk Management

The Directors acknowledge their responsibilities over both the system of internal controls maintained by the Company and in reviewing its effectiveness. The scope of internal controls covers not only financial but also operational and compliance controls as well as enterprise risk management.

The enterprise risk management includes the business recovery plan in the event of a business disruption, adequate treaty reinsurance programmes and half yearly stress tests to detect possible sources of vulnerability. The Company has implemented an enterprise risk management framework through the application of the corporate risk scorecard to proactively identify and manage risks effectively in order to achieve the Company's business objectives. The Risk Management Committee receives regular reports from Management to assist the Board to monitor the risks identified. There are procedures in place for both internal and external auditors to report their findings and recommendations to the Board, Audit Committee and Management. All aspects of the systems of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

Board Committees

1. Audit Committee

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

Membership:

	<u>Attendance</u>
Mr. Michael Yee Kim Shing (Chairman)	4/4
Y.Bhg. Dato' Abu Hanifah Bin Noordin	4/4
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	4/4

1. Audit Committee (Cont'd)

Functions and Duties

- (i) To review and recommend for the Board's approval, the Internal Audit Charter which defines the independence, purpose, authority, scope and responsibility of the internal audit function in the Company.
- (ii) To review the following and report to the Board:
 - (a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors' reports, management letters and liaison with Internal Audit.
 - (b) The independence and objectivity of the internal audit function as well as specification of their annual audit plan, specific coverage for critical areas, key functions and availability of resources. The Audit Committee ensures that the highest quality and compliance standards on internal auditing are adhered to and that all findings, including those arising from specific investigations, are resolved on a timely basis.
 - (c) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The Audit Committee ensures that the publication of financial statements and submissions of returns to BNM are dealt with promptly.
 - (d) The propriety of any related party transaction and conflict of interest situation that may arise within the Company, including any transaction, procedure or course of conduct that may raise questions of management integrity.
- (iii) To prepare the Audit Committee Report for submission to BNM, not later than 31 January of each year covering the composition of the Committee, number of meetings held and attendance thereon, as well as the activities undertaken by the Audit Committee and Internal Audit function during the year.
- (iv) To review whether all prescriptive and best practice requirements of JPI/GPI 25 (Consolidated) are complied with.
- (v) To perform any other work required or empowered by statutory legislation or guidelines issued by the relevant government or regulatory authorities.

2. Nominating Committee

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

Membership:

	<u>Attendance</u>
Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)	3/3
Mr. Michael Yee Kim Shing	3/3
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	3/3
En. Abdul Rahman Bin Talib	3/3
Mr. Chan Thye Seng	3/3

Functions and Duties

- (i) To oversee, via an annual review, the overall composition of the Board in terms of number of directors, the balance between Executive, Non-Executive and Independent Directors, mix of skills, expertise and experience, and other core competencies required.
- (ii) To recommend and assess the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Chief Executive Officer position.
- (iii) To establish a mechanism for the formal assessment of the effectiveness of the Board as a whole, the contributions of each Director to the effectiveness of the Board, as well as the contribution of the various Board committees and the performance of the Chief Executive Officer. These assessments are carried out on an annual basis.
- (iv) To make recommendation to the Board on the removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.
- (v) To identify and recommend suitable programmes to ensure all Directors receive continuous training or enhancement of knowledge particularly pertaining to regulatory developments from time to time.
- (vi) To oversee the appointment, management succession planning and performance evaluation of key senior officers, and recommend to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

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

3. Remuneration Committee

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

Membership:

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

Functions and Duties

- (i) To determine and recommend for approval of the Board, the framework or broad policies relating to terms of employment and remuneration of the Directors, Chief Executive Officer and key senior officers. The framework/policies are consistent with the requirements of JPI/GPI 1 (Consolidated) – Minimum Standards for Prudential Management of Insurers.
- (ii) To recommend to the Board the remuneration packages for Executive Directors, Chief Executive Officer and key senior officers. The remuneration packages for Executive Directors are structured such that they link rewards to corporate and individual performances to encourage high performance standards.
- (iii) To review and recommend to the Board the remuneration of the Non-Executive Directors within the limits set by the shareholders. A Non-Executive Director shall abstain from discussions relating to his remuneration. The remuneration of a Non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

4. Risk Management Committee

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

Membership:

	<u>Attendance</u>
Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)	5/5
Mr. Michael Yee Kim Shing	5/5
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth	5/5
Mr. Chan Thye Seng	5/5

4. Risk Management Committee (Cont'd)

Risk Management Framework

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

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

Functions and Duties

- (i) To review and recommend risk management strategies, policies and risk tolerance limits for the Board's approval.
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.
- (iii) To ensure adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.
- (iv) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Company No: 12557 W

HOLDING AND ULTIMATE HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the Board
in accordance with a resolution
of the Directors

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

ABDUL RAHMAN BIN TALIB

Kuala Lumpur
Dated: 30 November 2006

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, GEN (R) TAN SRI DATO' MOHD GHAZALI BIN DATO' MOHD SETH and ABDUL RAHMAN BIN TALIB, being two of the Directors of PACIFIC & ORIENT INSURANCE CO. BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 15 to 48, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2006 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

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

ABDUL RAHMAN BIN TALIB

Kuala Lumpur
Dated: 30 November 2006

STATUTORY DECLARATION

I, ABDUL RAHMAN BIN TALIB, the Director primarily responsible for the financial management of PACIFIC & ORIENT INSURANCE CO. BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 15 to 48 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 30 November 2006)

ABDUL RAHMAN BIN TALIB

Before me:

Commissioner for Oaths

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

We have audited the financial statements set out on pages 15 to 48. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 30 September 2006 and of the results and cash flows of the Company for the year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young
AF : 0039
Chartered Accountants

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

Kuala Lumpur, Malaysia
30 November 2006

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

BALANCE SHEET AS AT 30 SEPTEMBER 2006

ASSETS	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
Property, plant and equipment	3	13,468	14,673
Deferred taxation	4	5,790	4,689
Investments	5	502,692	489,942
Receivables	6	17,485	18,112
Cash and bank balances		4,005	3,878
TOTAL ASSETS		<u>543,440</u>	<u>531,294</u>
 LIABILITIES			
Provision for outstanding claims	7	276,933	260,982
Payables	8	9,998	9,866
Hire purchase creditors	9	797	1,016
Provision for taxation		-	2,558
TOTAL LIABILITIES		<u>287,728</u>	<u>274,422</u>
 Unearned premium reserves	 10	 <u>96,757</u>	 <u>104,306</u>
 SHAREHOLDER'S FUNDS			
Share capital	11	100,000	100,000
Accumulated profits		58,955	52,566
		<u>158,955</u>	<u>152,566</u>
 TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		 <u>543,440</u>	 <u>531,294</u>

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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2006

	<u>Note</u>	<u>Share Capital</u> RM'000	<u>Distributable Accumulated Profits</u> RM'000	<u>Total</u> RM'000
At 1 October 2004		100,000	51,565	151,565
Net profit for the year		-	14,001	14,001
Dividend	12	-	(13,000)	(13,000)
At 30 September 2005		100,000	52,566	152,566
Net profit for the year		-	14,389	14,389
Dividend	12	-	(8,000)	(8,000)
At 30 September 2006		100,000	58,955	158,955

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

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

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
Operating revenue	13	<u>260,601</u>	<u>260,302</u>
Investment income	14	529	594
Management expenses	15	<u>(5)</u> 524	<u>(6)</u> 588
Transfer from General Insurance Revenue Account		<u>17,976</u>	<u>19,516</u>
Profit before taxation		18,500	20,104
Income tax expense	17	<u>(4,111)</u>	<u>(6,103)</u>
Net profit for the year		<u>14,389</u>	<u>14,001</u>
Basic earnings per share (sen)	18	<u>14.39</u>	<u>14.00</u>
Dividend per share (sen)			
8.00 sen tax exempt (2005: 18.06 sen less 28% tax)	12	<u>8.00</u>	<u>13.00</u>

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

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2006

Note	FIRE		MOTOR		MARINE, AVIATION AND TRANSIT		MISCELLANEOUS		TOTAL		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Operating revenue	13								260,072	259,708	
Gross premium	13	3,038	3,247	186,654	195,986	1,767	1,197	42,913	41,802	234,372	242,232
Reinsurance		(1,587)	(1,700)	(10,806)	(11,556)	(1,481)	(826)	(31,894)	(29,886)	(45,768)	(43,968)
Net premium		1,451	1,547	175,848	184,430	286	371	11,019	11,916	188,604	198,264
Decrease / (increase) in unearned premium reserves	10	111	9	8,640	(14,790)	10	37	(1,212)	(1,034)	7,549	(15,778)
Earned premium		1,562	1,556	184,488	169,640	296	408	9,807	10,882	196,153	182,486
Net claims incurred	19	(129)	(937)	(154,660)	(129,935)	(94)	(180)	(868)	(798)	(155,751)	(131,850)
Net commission		86	(91)	(16,915)	(17,742)	40	(19)	(1,825)	(2,161)	(18,614)	(20,013)
Underwriting surplus before management expenses		(43)	(1,028)	(171,575)	(147,677)	(54)	(199)	(2,693)	(2,959)	(174,365)	(151,863)
		1,519	528	12,913	21,963	242	209	7,114	7,923	21,788	30,623
Management expenses	15									(33,028)	(32,169)
Underwriting deficit										(11,240)	(1,546)
Investment income	14									25,700	17,476
Other operating income - net	20									3,575	3,657
Profit from operations										18,035	19,587
Finance costs	21									(59)	(71)
Transfer to Income Statement										17,976	19,516

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2006

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		18,500	20,104
Adjustments for:			
Depreciation		1,363	1,377
Amortisation of premiums, net of accretion of discounts		746	244
Gain on disposal of property, plant and equipment		(2)	(117)
Property, plant and equipment written off		6	1
(Write-back of)/allowance for diminution in value of			
Investments		(1,800)	896
Permanent diminution in value of investments		6,865	412
Gain on disposal of investments		(8,323)	(4,495)
Short term accumulating compensated absences		11	10
Dividend income		(10,367)	(2,991)
Interest income		(14,952)	(13,734)
Income from Islamic corporate bonds		(1,284)	(1,181)
Allowance for doubtful debts		168	684
(Decrease)/increase in unearned premium reserves		(7,549)	15,778
Interest expense		53	65
Operating (loss)/profit before working capital changes		(16,565)	17,053
Changes in working capital:			
Purchase of investments		(5,029)	(49,382)
Proceeds from disposal of investments		20,551	62,872
Proceeds from capital repayment on quoted investment		-	1,600
Increase in bankers acceptances		(89,628)	(77,081)
Decrease in deposits and placements with financial			
institutions		64,281	56,981
Decrease in receivables		3,270	1,173
Increase/(decrease) in outstanding claims		15,951	(19,793)
Increase in payables		122	1,844
Cash used in operations		(7,047)	(4,733)
Tax paid net of recoveries		(7,832)	(10)
Dividends received		7,308	2,275
Interest received		14,913	14,176
Income received from Islamic corporate bonds		1,219	1,413
Interest paid		(53)	(65)
Net cash generated from operating activities	22	8,508	13,056

CASH FLOW STATEMENT (Cont'd)
FOR THE YEAR ENDED 30 SEPTEMBER 2006

	<u>Note</u>	<u>2006</u> RM'000	<u>2005</u> RM'000
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		23	203
Purchase of property, plant and equipment	3(c)	<u>(150)</u>	<u>(387)</u>
Net cash used in investing activities	22	<u>(127)</u>	<u>(184)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividend paid		(8,000)	(13,000)
Decrease in hire purchase creditors		<u>(254)</u>	<u>(252)</u>
Net cash used in financing activities	22	<u>(8,254)</u>	<u>(13,252)</u>
Net increase/(decrease) in cash and cash equivalents		127	(380)
Cash and cash equivalents at beginning of year	22	<u>3,878</u>	<u>4,258</u>
Cash and cash equivalents at end of year	22	<u><u>4,005</u></u>	<u><u>3,878</u></u>
Cash and cash equivalents comprise :			
Cash and bank balances		<u><u>4,005</u></u>	<u><u>3,878</u></u>

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

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

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2006

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

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

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

The average number of employees during the financial year in the Company was 444 (2005 : 436).

The financial statements were authorised for issue on 30 November 2006 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Company have been prepared under the historical cost convention and comply with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia.

General business assets and liabilities on the balance sheet relate to both the General Insurance Fund and Shareholder's Fund.

(b) Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there are any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Impairment of Assets (Cont'd)

An impairment loss is recognised as an expense in the income statement, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(c) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(b).

Freehold land is not depreciated. Leasehold land is depreciated over the term of the lease. Other property, plant and equipment are depreciated 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:

Leasehold land	over the term of the lease of 92 years
Buildings	2%
Computer equipment	10%
Motor vehicles	20%
Office equipment	10%
Furniture, fixtures and fittings	10%

On the disposal of property, plant and equipment, the difference between net proceeds and the carrying amount is recognised in the general insurance revenue account.

(d) Investments

(i) Investment properties consist of freehold and leasehold land and buildings that are held for their investment potential and rental income. Investment properties are stated at cost less impairment losses, if any. Investment properties are not depreciated.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Investments (Cont'd)

Government guaranteed bonds, unquoted corporate debt securities and Islamic corporate bonds which carry a minimum rating of "BBB" and "P3" are valued at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on an effective yield basis from the dates of purchase to maturity dates. Any corporate bond with a lower rating is stated at the lower of cost and net realisable value. The amortisation of premiums and accretion of discounts are recognised in the general insurance revenue account.

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

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

Other investments are stated at cost.

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

(e) Receivables

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

(f) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(g) Equity

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) General Insurance Underwriting Results

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

Premium Income

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

Unearned Premium Reserves

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

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

Provision for Claims

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

Acquisition Cost

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Income Recognition

- (i) Interest income on loans are recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.
- (ii) Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.
- (iii) Interest income from money market instruments and deposits and placements with financial institutions are recognised on an accrual basis.
- (iv) Dividend income is recognised when the right to receive payment is established.
- (v) Income from Islamic corporate bonds is recognised on an accrual basis.

(j) Currency Conversion and Translation

Transactions in foreign currencies are converted into Ringgit Malaysia at the exchange rates approximating those ruling at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated into Ringgit Malaysia at the exchange rates approximating those ruling at that date. All exchange gains or losses are dealt with in the general insurance revenue account and income statement.

(k) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates as enacted at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Income Tax (Cont'd)

Deferred tax is provided for, using the liability method, on temporary differences as at balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses, 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 not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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 as enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(l) Hire Purchase and Leases

Property, plant and equipment acquired under hire purchase and finance lease agreements are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the hire purchase and finance lease, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the hire purchase and finance lease, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Hire purchase and finance lease 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 and finance leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant hire purchase and finance lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease.

The depreciation policy for hire purchase and finance lease assets is consistent with that for depreciable property, plant and equipment as described in Note 2(b).

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

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

(n) Cash and Cash Equivalents

Cash and cash equivalents represent cash and bank balances excluding deposits and placements with financial institutions. The cash flow statement has been prepared using the indirect method.

(o) Financial Instruments

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangements. Interest, dividends and gains or losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance contracts are not provided as they do not fall within the scope of Financial Reporting Standard (“FRS”) 132: Financial Instruments - Disclosure and Presentation.

Company No: 12557 W

3. PROPERTY, PLANT AND EQUIPMENT

	Land		Buildings		Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	Freehold	Leasehold	Freehold	Leasehold					
	RM'000	RM'000	RM'000	RM'000					
<u>Cost:</u>									
At beginning of year	380	378	278	12,972	12,058	1,884	1,492	2,959	32,401
Additions	-	-	-	-	70	48	27	40	185
Disposals	-	-	-	-	-	(56)	(10)	-	(66)
Write offs	-	-	-	-	(2,972)	-	(118)	-	(3,090)
At end of year	380	378	278	12,972	9,156	1,876	1,391	2,999	29,430
<u>Accumulated Depreciation:</u>									
At beginning of year	-	31	33	3,347	10,254	460	1,192	2,411	17,728
Charge for the year	-	4	5	302	500	373	57	122	1,363
Disposals	-	-	-	-	-	(38)	(7)	-	(45)
Write offs	-	-	-	-	(2,972)	-	(112)	-	(3,084)
At end of year	-	35	38	3,649	7,782	795	1,130	2,533	15,962
<u>Net Book Value:</u>									
At end of year	380	343	240	9,323	1,374	1,081	261	466	13,468
At beginning of year	380	347	245	9,625	1,804	1,424	300	548	14,673
<u>Details at 1 October 2004:</u>									
Cost	380	378	278	12,972	12,064	1,737	1,437	2,873	32,119
Accumulated depreciation	-	27	27	3,046	9,740	470	1,138	2,287	16,735
Depreciation charge for the year ended 30 September 2005	-	4	6	301	522	349	69	126	1,377

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

- (a) Included in property, plant and equipment are the following costs of fully depreciated assets which are still in use:

	<u>2006</u> RM'000	<u>2005</u> RM'000
Computer equipment	4,124	6,843
Motor vehicles	24	24
Office equipment	845	776
Furniture, fixtures and fittings	<u>1,762</u>	<u>1,669</u>
	<u>6,755</u>	<u>9,312</u>

- (b) The net book value of motor vehicles held under hire purchase arrangements is RM1,069,000 (2005 : RM 1,408,000).

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

	<u>2006</u> RM'000	<u>2005</u> RM'000
Cash	150	387
Hire purchase	<u>35</u>	<u>365</u>
	<u>185</u>	<u>752</u>

4. DEFERRED TAXATION

	<u>2006</u> RM'000	<u>2005</u> RM'000
At beginning of year	4,689	4,225
Transfer to income statement (Note 17)	<u>1,101</u>	<u>464</u>
At end of year	<u>5,790</u>	<u>4,689</u>

Presented after appropriate offsetting as follows:

Deferred tax assets	6,270	5,331
Deferred tax liabilities	<u>(480)</u>	<u>(642)</u>
	<u>5,790</u>	<u>4,689</u>

4. DEFERRED TAXATION (Cont'd)

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

Deferred Tax Assets of the Company:

	Unearned Premium Reserve RM'000	Allowance for Diminution in Value of Investments RM'000	Total RM'000
<u>2006</u>			
At beginning of year	11	5,320	5,331
Recognised in the income statement	2	937	939
Arising during the year	3	1,317	1,320
Arising due to change in tax rate	(1)	(380)	(381)
At end of year	13	6,257	6,270
<u>2005</u>			
At beginning of year	10	4,953	4,963
Recognised in the income statement	1	367	368
At end of year	11	5,320	5,331

Deferred Tax Liabilities of the Company:

	Accelerated Capital Allowances RM'000	Total RM'000
<u>2006</u>		
At beginning of year	(642)	(642)
Recognised in the income statement	162	162
Arising during the year	116	116
Arising due to change in tax rate	46	46
At end of year	(480)	(480)
<u>2005</u>		
At beginning of year	(738)	(738)
Recognised in the income statement	96	96
At end of year	(642)	(642)

5. INVESTMENTS

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Cost:</u>		
<u>Investment properties</u>		
Freehold buildings	706	706
Leasehold land and building	730	730
	<u>1,436</u>	<u>1,436</u>
<u>Investment securities</u>		
Money market instruments:		
Malaysian Government Securities	56,976	56,976
Amortisation of premiums	(867)	(152)
	<u>56,109</u>	<u>56,824</u>
Islamic corporate bonds	20,420	15,391
Amortisation of premiums	(227)	(146)
	<u>20,193</u>	<u>15,245</u>
Bankers acceptances	<u>256,177</u>	<u>166,549</u>
Quoted securities:		
Shares in Malaysia	23,882	49,894
Allowance for diminution in value	-	(965)
	<u>23,882</u>	<u>48,929</u>
Warrants in Malaysia	983	2,127
Allowance for diminution in value	(95)	(930)
	<u>888</u>	<u>1,197</u>
Irredeemable convertible unsecured loan stock	-	9,453
Unit trusts	<u>6,573</u>	<u>6,340</u>
Unquoted securities:		
Shares in Malaysia *	<u>22,696</u>	-
Corporate bonds	4,700	9,959
Accretion of discount/(amortisation of premiums, net of accretion of discounts)	156	(153)
	<u>4,856</u>	<u>9,806</u>
Total investment securities	<u>391,374</u>	<u>314,343</u>

5. INVESTMENTS (Cont'd)

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Deposits and placements with financial institutions</u>		
Licensed banks	109,882	164,176
Licensed finance companies	-	9,987
	<u>109,882</u>	<u>174,163</u>
 Total investments	 <u>502,692</u>	 <u>489,942</u>
<u>Market value:</u>		
Malaysian Government Securities	56,062	57,749
Islamic corporate bonds	20,800	16,008
Shares quoted in Malaysia	24,592	48,929
Warrants quoted in Malaysia	888	1,197
Irredeemable convertible unsecured loan stock	-	11,627
Unit trusts	6,624	6,455
Unquoted corporate bonds	<u>4,907</u>	<u>9,672</u>

The total indicative market value of the investment properties by a firm of professional valuers during the financial year was RM1,215,000 (2005 : RM1,220,000). No allowance for impairment loss has been made as the rental yields from these properties are supportive of the carrying value of the investment.

Deposits and placements amounting to RM232,000 (2005 : RM384,000) represent deposits given by the insureds as collateral for bond guarantees granted to third parties.

* This relates to shares in Killinghall (Malaysia) Bhd ("KMB"), which was delisted from the Official List of Bursa Malaysia Securities Berhad on 29 August 2006. At an Extraordinary General Meeting on 26 September 2006, the shareholders of KMB approved a special resolution to wind up KMB under a members' voluntary liquidation pursuant to Section 254(1)(b) of the Malaysian Companies' Act 1965. The Statement of Assets at Estimated Realisable Values and Liabilities Expected To Rank as at 28 August 2006 attached to the Declaration of Solvency (Form 66) filed by KMB with the Companies' Commission of Malaysia on 1 September 2006 showed a surplus of RM1,017,935,000 after deducting the net dividend of RM120,388,000 paid on 22 September 2006. The amount receivable by the Company from the liquidators is estimated at RM43,671,000. This amount will result in full recovery of the cost of RM22,696,000 and the balance represents surplus on return of capital of RM20,975,000.

5. INVESTMENTS (Cont'd)

The Company is of the view that this transaction should be reflected in the financial statements for the financial year ended 30 September 2006 so that the financial statements will show a true and fair view of the results and the state of affairs of the Company. On 26 September 2006, the date of liquidation of KMB, the nature of the asset was changed from an investment to a right to receive future cash from the liquidators. Legally, KMB shareholders are now the contributories in the liquidation process and will be entitled to receive its share of the return of surplus assets. The amount receivable from the liquidators can be reliably measured based on the surplus assets shown in the Statement of Assets at Estimated Realisable Values and Liabilities Expected To Rank statutorily prepared by the KMB directors. In view of the aforementioned facts, the liquidation of KMB should be included in the financial statements. If the transaction had been included, the Company's profit before tax would be RM39,475,000 instead of RM18,500,000.

However, the Auditors are of the view that this transaction does not qualify for derecognition of the Company's investment in KMB of RM22,696,000 and accordingly the recognition of the corresponding surplus for the financial year ended 30 September 2006 of RM20,975,000, and receivable of RM43,671,000 as at 30 September 2006 would not be appropriate.

As stated earlier, the Company has an indisputable right in law to the assets held by the liquidators which are substantially in the form of cash. The Company also feels that to classify this indisputable right as an investment is wrong in law as that particular investment (shares in KMB) technically no longer exists as at the date of the winding-up resolution.

Arguments in favour of the Company's view have been substantiated by the liquidators having already declared on 23 November 2006 a first distribution of surplus assets of RM3.30 per share which was received by the Company on 24 November 2006. The receipt of the RM39,701,000 from the distribution resulted in full recovery of the cost totalling RM22,696,000 and a surplus of RM17,005,000.

This amount was received before the date the financial statements were approved on 30 November 2006 and signed thereafter. It is a very substantial portion of the amount expected to be received from the liquidators. As such, it is a significant event that could be looked upon as an adjusting event after the balance sheet date to present a more accurate financial position as at 30 September 2006.

Although for the reasons above the Company strongly disagrees with the Auditors, in the face of their adamant stand, the Company regrets that it has to reluctantly accept the Auditors' view.

5. INVESTMENTS (Cont'd)

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

	Contractual repricing or maturity date (whichever is earlier)		Total Carrying amount RM'000	Range of effective interest rates per annum %
	Less than 1 year RM'000	1 to 5 years RM'000		
<u>2006</u>				
Malaysian Government Securities	5,002	51,107	56,109	3.15-6.51
Bankers acceptances	256,177	-	256,177	3.70-4.10
Unquoted corporate bonds	-	4,856	4,856	6.42
Deposits and placements with Financial institutions	109,882	-	109,882	2.55-4.42
	<u>371,061</u>	<u>55,963</u>	<u>427,024</u>	

2005

Malaysian Government Securities	-	56,824	56,824	3.15-6.51
Bankers acceptances	166,549	-	166,549	2.80-2.91
Irredeemable convertible unsecured Loan stock	-	9,453	9,453	5.00
Unquoted corporate bonds	5,008	4,798	9,806	6.40-6.42
Deposits and placements with Financial institutions	174,163	-	174,163	2.50-3.70
	<u>345,720</u>	<u>71,075</u>	<u>416,795</u>	

The effective profit rate of the Islamic corporate bonds as at the balance sheet date was between 4.45% and 8.15% (2005 : 5.42% and 8.15%) per annum.

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

	<u>2006</u> RM'000	<u>2005</u> RM'000
1 to 5 years	<u>20,193</u>	<u>15,245</u>

6. RECEIVABLES

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Trade receivables:</u>		
Outstanding premiums including agents', brokers' and co-insurers' balances	6,280	7,408
Due from reinsurers and ceding companies	3,249	5,864
	<u>9,529</u>	<u>13,272</u>
Allowance for doubtful debts	(3,129)	(3,033)
	<u>6,400</u>	<u>10,239</u>
<u>Other receivables:</u>		
Accrued income	3,691	3,492
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	2,455	2,615
Deposits and prepayments	987	418
Tax recoverable	3,462	852
Others	490	496
	<u>11,085</u>	<u>7,873</u>
	<u>17,485</u>	<u>18,112</u>

7. PROVISION FOR OUTSTANDING CLAIMS

	<u>2006</u> RM'000	<u>2005</u> RM'000
Provision for outstanding claims	314,186	298,000
Recoverable from reinsurers	(37,253)	(37,018)
Net outstanding claims	<u>276,933</u>	<u>260,982</u>

Included in the provision for outstanding claims is an amount of RM98,837,000 (2005 : RM94,200,000) in respect of net provision for Incurred But Not Reported (IBNR) claims as determined by an independent professional actuary.

8. PAYABLES

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Trade payables:</u>		
Due to reinsurers and ceding companies	5,452	5,165
Due to agents, brokers, co-insurers and insureds	<u>1,172</u>	<u>1,051</u>
	<u>6,624</u>	<u>6,216</u>
<u>Other payables:</u>		
Due to:		
- holding company*	40	42
- fellow subsidiary companies*	23	169
Accruals	531	497
Collateral deposits	247	402
Insurance Guarantee Scheme Fund (IGSF) levy	601	503
Refund premiums	170	193
Service tax payable	221	235
Short term accumulating compensated absences	344	333
Stamp duty payable	685	821
Unclaimed monies	177	224
Others	<u>335</u>	<u>231</u>
	<u>3,374</u>	<u>3,650</u>
	<u>9,998</u>	<u>9,866</u>

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

9. HIRE PURCHASE CREDITORS

	<u>2006</u> RM'000	<u>2005</u> RM'000
Future minimum payments are as follows:		
Payable within one year	304	303
Payable within one and five years	<u>568</u>	<u>838</u>
	872	1,141
Finance charges	<u>(75)</u>	<u>(125)</u>
	<u>797</u>	<u>1,016</u>
Representing hire purchase creditors:		
Due within one year	262	249
Due after one year	<u>535</u>	<u>767</u>
	<u>797</u>	<u>1,016</u>

The hire purchase arrangements at the balance sheet date bear interest between 3.90% and 5.21% (2005 : 4.64% and 6.33%) per annum.

10. UNEARNED PREMIUM RESERVES

	<u>Fire</u> RM'000	<u>Motor</u> RM'000	<u>Marine, Aviation And Transit</u> RM'000	<u>Miscellaneous</u> RM'000	<u>Total</u> RM'000
<u>2006</u>					
At beginning of year	915	88,783	134	14,474	104,306
(Decrease)/increase in unearned premium reserves	(111)	(8,640)	(10)	1,212	(7,549)
At end of year	<u>804</u>	<u>80,143</u>	<u>124</u>	<u>15,686</u>	<u>96,757</u>
<u>2005</u>					
At beginning of year	924	73,993	171	13,440	88,528
(Decrease)/increase in unearned premium reserves	(9)	14,790	(37)	1,034	15,778
At end of year	<u>915</u>	<u>88,783</u>	<u>134</u>	<u>14,474</u>	<u>104,306</u>

11. SHARE CAPITAL

	Number of shares		Amount	
	<u>2006</u> '000	<u>2005</u> '000	<u>2006</u> RM'000	<u>2005</u> RM'000
Authorised shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid ordinary shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

12. DIVIDEND

	<u>2006</u> RM'000	<u>2005</u> RM'000
Interim dividend of 8.00 sen per share tax exempt in respect of current financial year, paid on 12 June 2006 (2005: 18.06 sen per share less tax at 28%)	<u>8,000</u>	<u>13,000</u>

13. OPERATING REVENUE

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Insurance fund</u>		
Gross premium	234,372	242,232
Investment income (Note 14)	<u>25,700</u>	<u>17,476</u>
	260,072	259,708
<u>Shareholder's fund</u>		
Investment income (Note 14)	<u>529</u>	<u>594</u>
	<u>260,601</u>	<u>260,302</u>

14. INVESTMENT INCOME

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Insurance fund</u>		
Gross dividends:		
- shares quoted in Malaysia	3,269	2,693
- unquoted shares in Malaysia *	6,857	-
- unit trusts	241	298
Interest income:		
- Malaysian Government Securities	2,875	1,336
- Cagamas bonds	-	1,556
- bankers acceptances	6,843	3,034
- corporate bonds	420	1,145
- deposits and placements with financial institutions	4,285	6,069
Income from Islamic corporate bonds	1,284	1,181
Rental of properties:		
- third parties	12	36
- fellow subsidiary companies	5	5
- holding company	264	264
MMIP investment income	91	90
Other investment income	-	13
Amortisation of premiums, net of accretion of discounts	<u>(746)</u>	<u>(244)</u>
	<u>25,700</u>	<u>17,476</u>
<u>Shareholder's fund</u>		
Interest income:		
- bankers acceptances	396	447
- deposits and placements with financial institutions	<u>133</u>	<u>147</u>
	<u>529</u>	<u>594</u>

* This is in respect of dividend received from KMB after it was delisted from Bursa Malaysia Securities Berhad on 29 August 2006 prior to commencement of liquidation on 26 September 2006.

15. MANAGEMENT EXPENSES

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Insurance fund</u>		
Executive Directors' remuneration (Note 16)	878	822
Staff salaries and bonus	12,032	11,565
Staff short term accumulating compensated absences	9	10
Pension costs - defined contribution plan	1,438	1,382
Other staff benefits	1,137	1,266
	<u>15,494</u>	<u>15,045</u>
Depreciation	1,363	1,377
Auditors' remuneration	90	90
Non-Executive Directors' remuneration (Note 16)	115	115
Allowance for doubtful debts	168	684
Bad debts recovered	(19)	(54)
Rental of properties:		
- third parties	305	308
- fellow subsidiary company	109	103
IGSF levy	601	503
Management fees to holding company	729	672
Call centre service charges to fellow subsidiary company	558	552
Rental of equipment:		
- third party	139	132
- fellow subsidiary company	1,010	1,037
Printing and EDP expenses	4,703	4,388
Business development	1,563	1,180
Bank charges	2,042	2,116
Office administration and utilities	1,634	1,687
Other expenses	2,424	2,234
	<u>33,028</u>	<u>32,169</u>
<u>Shareholder's fund</u>		
Staff salaries and bonus	3	4
Pension costs - defined contribution plan	1	1
	<u>4</u>	<u>5</u>
Other expenses	1	1
	<u>5</u>	<u>6</u>

16. DIRECTORS' REMUNERATION

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Insurance fund</u>		
Executive Directors:		
- Salaries	646	607
- Bonuses	82	73
- Pension costs - defined contribution plan	94	88
- Benefits-in-kind	56	49
- Short term accumulating compensated absences	2	-
- Allowances	54	54
	<u>934</u>	<u>871</u>
Non-Executive Directors:		
- Fees	115	115
Total Directors' remuneration	<u>1,049</u>	<u>986</u>
Total Executive Directors' Remuneration excluding Benefits-in-kind	<u>878</u>	<u>822</u>

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM498,000 (2005 : RM471,000)

17. INCOME TAX EXPENSE

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Income tax:</u>		
Current year's provision	4,970	6,401
Under provision in prior years	242	166
	<u>5,212</u>	<u>6,567</u>
<u>Deferred tax (Note 4):</u>		
Relating to timing differences	(1,436)	(458)
Under/(over) provision in prior years	335	(6)
Transfer from deferred taxation	<u>(1,101)</u>	<u>(464)</u>
	<u>4,111</u>	<u>6,103</u>

17. INCOME TAX EXPENSE (Cont'd)

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

	<u>2006</u> RM'000	<u>2005</u> RM'000
Profit before taxation	<u>18,500</u>	<u>20,104</u>
Taxation at Malaysian statutory tax rate of 28% (2005 : 28%)	5,180	5,629
Group tax relief *	(1,972)	-
Effect of change in tax rate on deferred tax	111	-
Under provision of income tax in prior years	242	166
Under/(over) provision of deferred tax in prior years	335	(6)
Income not subject to tax	(354)	(182)
Expenses not deductible for tax purposes	<u>569</u>	<u>496</u>
Tax expense for the year	<u>4,111</u>	<u>6,103</u>

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

As at 30 September 2006, the Company has:

- a tax exempt account balance of approximately RM60,498,000 (2005: RM67,524,000), 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.

18. BASIC EARNINGS PER SHARE (SEN)

The basic earnings per ordinary share of the Company is calculated by dividing the net profit of RM14,389,000 (2005 : RM14,001,000) on 100,000,000 ordinary shares.

19. NET CLAIMS INCURRED

	<u>Fire</u>	<u>Motor</u>	<u>Marine, Aviation And Transit</u>	<u>Miscellaneous</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2006</u>					
Gross claims paid less salvage	969	149,198	255	1,621	152,043
Reinsurance recoveries	(454)	(11,346)	(129)	(314)	(12,243)
Net claims paid (a)	515	137,852	126	1,307	139,800
Net outstanding claims:					
At end of year (b) (Note 7)	897	271,975	629	3,432	276,933
At beginning of year (c)	(1,283)	(255,167)	(661)	(3,871)	(260,982)
Net claims incurred (a+b-c)	129	154,660	94	868	155,751
<u>2005</u>					
Gross claims paid less salvage	912	166,925	190	2,264	170,291
Reinsurance recoveries	(223)	(17,692)	(73)	(660)	(18,648)
Net claims paid (a)	689	149,233	117	1,604	151,643
Net outstanding claims:					
At end of year (b) (Note 7)	1,283	255,167	661	3,871	260,982
At beginning of year (c)	(1,035)	(274,465)	(598)	(4,677)	(280,775)
Net claims incurred (a+b-c)	937	129,935	180	798	131,850

20. OTHER OPERATING INCOME - NET

	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
<u>Insurance fund</u>		
Gain on disposal of:		
- investments	8,323	4,495
- property, plant and equipment	2	117
Realised (loss)/gain on foreign exchange	(3)	1
Sundry income	324	353
Write-back of/(allowance for) diminution in value of investments	1,800	(896)
Permanent diminution in value of investments	(6,865)	(412)
Property, plant and equipment written off	(6)	(1)
	<u>3,575</u>	<u>3,657</u>

21. FINANCE COSTS

	<u>2006</u> RM'000	<u>2005</u> RM'000
<u>Insurance fund</u>		
Hire-purchase interest	53	65
Others	<u>6</u>	<u>6</u>
	<u>59</u>	<u>71</u>

22. SEGMENT INFORMATION ON CASH FLOW

	<u>Insurance fund</u>		<u>Shareholder's funds</u>		<u>Total</u>	
	<u>2006</u> RM'000	<u>2005</u> RM'000	<u>2006</u> RM'000	<u>2005</u> RM'000	<u>2006</u> RM'000	<u>2005</u> RM'000
Cash flow from:						
Operating activities	512	75	7,996	12,981	8,508	13,056
Investing activities	(127)	(184)	-	-	(127)	(184)
Financing activity	<u>(254)</u>	<u>(252)</u>	<u>(8,000)</u>	<u>(13,000)</u>	<u>(8,254)</u>	<u>(13,252)</u>
	<u>131</u>	<u>(361)</u>	<u>(4)</u>	<u>(19)</u>	<u>127</u>	<u>(380)</u>
Net increase/ (decrease) in cash and cash equivalents	131	(361)	(4)	(19)	127	(380)
Cash and cash equivalents:						
At beginning of year	<u>3,873</u>	<u>4,234</u>	<u>5</u>	<u>24</u>	<u>3,878</u>	<u>4,258</u>
At end of year	<u>4,004</u>	<u>3,873</u>	<u>1</u>	<u>5</u>	<u>4,005</u>	<u>3,878</u>

23. COMMITMENTS AND CONTINGENCIES

(a) Non-cancellable operating lease commitments

	<u>2006</u> RM'000	<u>2005</u> RM'000
Future minimum lease payments are as follows:		
Not later than one year	716	486
Later than one year and not later than five years	<u>887</u>	<u>494</u>
	<u>1,603</u>	<u>980</u>

These represent rental commitments of computer and office equipment.

(b) Other commitments and contingencies

The Company may be required to contribute up to a maximum amount of RM582,000 (2005 : RM601,000) in the following financial year to the Insurance Guarantee Scheme Fund.

24. SIGNIFICANT RELATED PARTY DISCLOSURES

	<u>2006</u> RM'000	<u>2005</u> RM'000
(i) Transactions with related companies:		
Rental income received from holding company:		
- Pacific & Orient Bhd	(264)	(264)
Purchase of property, plant and equipment from fellow subsidiary companies:		
- P & O Global Technologies Sdn Bhd	61	6
Management fees paid to holding company:		
- Pacific & Orient Bhd	729	672
Office rental paid to fellow subsidiary company:		
- P & O Global Technologies Sdn Bhd	109	103
Information technology service fees paid to fellow subsidiary company:		
- P & O Global Technologies Sdn Bhd	2,574	2,719
Call centre service charges paid to fellow subsidiary company:		
- P & O Global Technologies Sdn Bhd	558	552
Leasing of office equipment paid to fellow subsidiary company:		
- P & O Global Technologies Sdn Bhd	665	701
Rental of equipment paid to fellow subsidiary company:		
- P & O Global Technologies Sdn Bhd	345	336
(ii) Transactions with other related parties:		
Insurance revenue from a group of companies in which a Director, Mr Chan Thye Seng is deemed interested:		
- Ancom Berhad Group of companies	<u>395</u>	<u>730</u>

Related party transactions were carried out on terms and conditions no more favourable than those available on similar transactions with unrelated parties.

25. SUBSEQUENT EVENT

As mentioned in Note 5 to the financial statements, on 24 November 2006, the Company received RM39,701,000 from the distribution of assets by the liquidators of KMB which has resulted in full recovery of the cost of investment totalling RM22,696,000 and a surplus of RM17,005,000 in respect of the Company's investment in KMB. This distribution has not been reflected in the financial statements of the current financial year but it will be accounted for in the financial year ending 30 September 2007.

26. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

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

(b) Underwriting Risk

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

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

(c) Credit Risk

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

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

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

26. FINANCIAL INSTRUMENTS (Cont'd)

(c) Credit Risk (Cont'd)

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

	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
Rating of corporate bonds on market value basis:		
AA 3	5,412	5,472
AA-	10,204	5,236
A 3	4,907	4,650
A	5,184	10,322
	<u>25,707</u>	<u>25,680</u>

Analysis of corporate bonds by industry segments:

Properties	5,184	5,300
Power	5,412	5,472
Trading/services	10,078	9,886
Oil and gas	5,033	-
Plantation	-	5,022
	<u>25,707</u>	<u>25,680</u>

(d) Interest Rate Risk

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

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

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

(e) Market Risk

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

26. FINANCIAL INSTRUMENTS (Cont'd)

(f) Liquidity Risk

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

(g) Derivatives

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

(h) Fair Values

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

	<u>2006</u>		<u>2005</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>amount</u>	<u>Value</u>	<u>amount</u>	<u>Value</u>
	RM'000	RM'000	RM'000	RM'000
<u>Financial Assets</u>				
Malaysian Government Securities	56,109	56,062	56,824	57,749
Islamic corporate bonds	20,193	20,800	15,245	16,008
Quoted shares	23,882	24,592	-	-
Irredeemable convertible unsecured loan stock	-	-	9,453	11,627
Unit trusts	6,573	6,624	6,340	6,455
Unquoted shares (Note 5)	22,696	43,671	-	-
Unquoted corporate bonds	4,856	4,907	9,806	9,672
<u>Financial Liabilities</u>				
Hire purchase creditors	797	817	1,016	1,021
Due to holding company	40	*	42	*
Due to fellow subsidiary companies	23	*	169	*

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

26. FINANCIAL INSTRUMENTS (Cont'd)

(h) Fair Values (Cont'd)

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

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

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

- (ii) Malaysian Government Securities, Cagamas Bonds, Islamic Corporate Bonds and Unquoted Corporate Bond

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

- (iii) Investment Securities

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

- (iv) Unit Trusts

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

- (v) Hire Purchase Creditors

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