PACIFIC & ORIENT INSURANCE CO. BERHAD

(Company No: 12557 W)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

30 September 2010

Ernst & Young
AF : 0039

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

CONTENTS

Company No: 12557 W

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

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 30 September 2010.

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	42,057

DIVIDEND

No dividend was declared or paid since the end of the previous financial year and the directors do not recommend the payment of any dividend for the current financial year.

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CONTINGENT AND OTHER LIABILITIES (CONT'D.)

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

In the opinion of the directors, the results of operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than those as disclosed in the financial statements including the effects arising from the implementation of the RBC Framework as disclosed in Note 3.

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

DIRECTORS

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

Y.Bhg. Dato' Seri Datuk Dr. Haji Jalaluddin Bin Abdul Rahim
Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Bin Dato' Mohd Seth
Y.Bhg. Dato' Abu Hanifah Bin Noordin
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 and Mr. Michael Yee Kim Shing retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

In accordance with Article 74 of the Company's Articles of Association, 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 arrangements subsisted to which the Company is a party with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the share options granted to eligible Directors pursuant to the Employee Share Options Scheme (ESOS) of the holding company.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary as a full-time employee of the Company as shown in Notes 21 and 22) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

	Number of Ordinary Shares of RM1.00 Each			
The Company	At 1 October 2009	Acquired	Disposed	At 30 September 2010
Mr. Chan Thye Seng				
- Indirect interest	100,000,000	-	-	100,000,000

	<-------------Before share split------------> Number of Ordinary Shares of RM1.00 Each			<------------------After share split---------------> Number of Ordinary Shares of RM0.50 Each		
Pacific & Orient Berhad (Holding Company)	At 1 October 2009	Acquired/ (Disposed)	Balance Before Share Split	Share Split*	Acquired/ (Disposed)	At 30 September 2010
Mr. Chan Thye Seng						
- Direct interest	11,439,168	3,365,400	14,804,568	29,609,136	-	29,609,136
- Indirect interest	54,385,909	-	54,385,909	108,771,818	-	108,771,818
Mr. Michael Yee Kim Shing						
- Indirect interest	928,901	(35,000)	893,901	1,787,802	(120,000)	1,667,802

DIRECTORS' INTERESTS (CONT'D.)

	<-------------Before share split------------> Number of Ordinary Shares of RM1.00 Each			<------------------After share split---------------> Number of Ordinary Shares of RM0.50 Each		
	At 1 October 2009	Acquired/ (Disposed)	Balance Before Share Split	Share Split*	Acquired/ (Disposed)	At 30 September 2010
Pacific & Orient Berhad (Holding Company)						
Y.Bhg.Dato' Abu Hanifah Bin Noordin						
- Indirect interest	2,348,516	(549,700)	1,798,816	3,597,632	(2,062,000)	1,535,632
En. Abdul Rahman Bin Talib						
- Direct interest	-	850,000/ (850,000)	-	-	-	-

* The share split involved the subdivision of the holding company's one (1) ordinary share of RM1.00 each held into two (2) ordinary shares of RM0.50 each on 19 July 2010 ("Share Split").

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

		Number of Share Options Under ESOS of RM1.00 Each			
Name of option holders	Exercise Price RM	At 1 October 2009	Granted	Exercised	At 30 September 2010
Mr. Chan Thye Seng	1.27	900,000	-	(900,000) *	-
En. Abdul Rahman Bin Talib	1.27	850,000	-	(850,000) *	-

* Exercised before the share split exercise of the holding company.

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

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

CORPORATE GOVERNANCE

The Board and management have considered Bank Negara Malaysia's (BNM) 'Prudential Framework of Corporate Governance for Insurers' ("the Framework") [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 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 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 Composition, Attendance and Meetings

As at 30 September 2010, the Board comprises seven directors with wide-ranging skills and experience. There is a balance in the Board represented by the presence of one Executive Director, five Independent Non-Executive Directors and one Non-Independent Non-Executive Director. During the financial year, the attendance of the Directors at the Board meetings was as follows:

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

CORPORATE GOVERNANCE (CONT'D.)

Board Composition, Attendance and Meetings (Cont'd.)

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 responsibility for the final decision on all matters lies 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 Financial Reporting Standards in Malaysia as modified by BNM and give a true and fair view of the financial position of the Company as at 30 September 2010 and of the results and cash flows of the Company for the year then ended.

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

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

Management Accountability

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

Corporate Independence

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

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 is assisted by the Audit Committee to review audit issues concerning internal controls identified by the Internal Audit Department, external auditor and regulatory examiners and to oversee the financial reporting processes and the quality of financial reporting of the Company. All aspects of the system of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

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

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

Board Committees

1. Audit Committee ("AC")

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

Membership:	Attendance
Mr. Michael Yee Kim Shing (Chairman)	4/4
Y.Bhg. 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
Y.Bhg. Dato' Abu Hanifah Bin Noordin	3/4
En. Mohammad Nizar Bin Idris	4/4

CORPORATE GOVERNANCE (CONT'D.)

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

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.

Functions and Duties

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

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

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

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

(c) Independence and reporting relationships of the internal audit function as well as the adequacy and relevance of the scope, functions, competency and resources and the necessary authority to carry out its work.

(d) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The AC also reviews the disclosure in the Directors’ Report on the manner in which applications of [BNM/RH/GL/003-2] principles through prescriptive applications and best practice standards have been achieved.

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

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

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

CORPORATE GOVERNANCE (CONT'D.)

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

During the financial year, the AC had reviewed 19 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.

2. Nominating Committee ("NC")

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

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

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

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

Functions and Duties

(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 Chief Executive Officer ("CEO") positions.

(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.

CORPORATE GOVERNANCE (CONT'D.)

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

Functions and Duties (Cont'd.)

(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 terms of reference of the NC was revised and approved by the Board in the current financial year. During the financial year, the NC had conducted an annual assessment of the performance of the CEO as well as assessed the performance of an existing Director prior to his reappointment, subject to BNM's approval.

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

3. Remuneration Committee ("RC")

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

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

Remuneration Policy

A remuneration policy has been established to govern the remuneration of the Non-Executive Directors and Executive Director (including the CEO).

CORPORATE GOVERNANCE (CONT'D.)

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

Functions and Duties (Cont'd.)

(i) To determine and recommend for approval of the Board, the framework or broad policies relating to terms of employment and remuneration of the Non-Executive Directors, CEO and Executive Director. The framework/policies are consistent with the requirements of [BNM/RH/GL/003-1].

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

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

In the meeting of the RC during the financial year, the Committee had reviewed and recommended to the Board the remuneration of the CEO.

4. Risk Management Committee ("RMC")

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

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

CORPORATE GOVERNANCE (CONT'D.)

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

Risk Management Framework

The RMC was established to oversee the formulation of an effective enterprise risk management framework and to monitor risk management activities. The risk management framework was revised during the financial year to be in line with the new AS/NZS ISO 31000:2009 Risk Management - Principles and Guidelines, BNM's Concept Paper on Risk Management Guidelines on Risk Governance as well as COSO's Enterprise Risk Management Integrated Framework.

In accordance with the risk management framework, a Risk Review Working Committee was established to assist the RMC in implementing the risk management policy, developing and monitoring risk management procedures and measurement methodologies as well as monitoring the progress of risk mitigation plans.

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 the framework is 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 perform those duties independently of the Company’s risk taking activities.

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

The RMC had conducted a review of the strategic risks of the Company as well as all known risks identified by the individual business units during the financial year. The RMC has also reviewed the stress test report for recommendation to the Board prior to submission to BNM.

RISK- BASED CAPITAL FRAMEWORK

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

HOLDING AND ULTIMATE HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 30 November 2010.

DATO' SERI DATUK DR. HAJI JALALUDDIN BIN ABDUL RAHIM	ABDUL RAHMAN BIN TALIB

Kuala Lumpur

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 18 to 81, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia so as to give a true and fair view of the financial position of the Company as at 30 September 2010 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 30 November 2010.

DATO' SERI DATUK DR. HAJI JALALUDDIN BIN ABDUL RAHIM	ABDUL RAHMAN BIN TALIB

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 18 to 81 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 2010	)	ABDUL RAHMAN BIN TALIB

Before me:

Commissioner for Oaths

12557-W

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

Report on the financial statements

We have audited the financial statements of Pacific & Orient Insurance Co. Berhad, which comprise the balance sheet as at 30 September 2010 of the Company, and the income statement, statement of changes in equity and cash flow statement of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 81.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia 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 2010 and of the financial performance and cash flows of the Company for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Habibah binti Abdul
No. 1210/05/12(J)
Chartered Accountant

Kuala Lumpur, Malaysia
30 November 2010

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

BALANCE SHEET AS AT 30 SEPTEMBER 2010

	Note	2010 RM'000	2009 RM'000
ASSETS			
Property, plant and equipment	5	17,813	17,870
Investment properties	6	645	645
Prepaid land lease payments	7	326	330
Intangible assets	8	133	178
Deferred tax assets	9	3,580	2,813
Investment securities	10	100,723	118,007
Receivables	11	60,556	29,598
Deposits and placements with financial institutions	12	542,089	567,716
Cash and bank balances		4,815	7,909
TOTAL GENERAL INSURANCE AND SHAREHOLDER'S FUND ASSETS		730,680	745,066
LIABILITIES			
Claims liabilities	13	316,768	357,760
Payables	14	29,286	14,668
Hire purchase creditors	15	1,003	350
Provision for taxation		5,100	-
TOTAL GENERAL INSURANCE AND SHAREHOLDER'S FUND LIABILITIES		352,157	372,778
INSURANCE RESERVES			
Premium liabilities	16	184,205	199,573
EQUITY			
Share capital	17	100,000	100,000
Retained profits	18	90,842	67,493
Revaluation reserve		5,222	5,222
Available-for-sale reserve		(1,746)	-
		194,318	172,715
TOTAL LIABILITIES, INSURANCE RESERVES AND EQUITY		730,680	745,066

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 2010

			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 2008		100,000	-	-	42,547	142,547
Net profit for the year		-	-	-	24,946	24,946
Revaluation surplus		-	6,962	-	-	6,962
Transferred from property, plant and equipment:						
- Cost	5	-	2,564	-	-	-
- Accumulated depreciation	5	-	4,398	-	-	-
Transferred to deferred tax on revaluation surplus	9	-	(1,740)	-	-	(1,740)
At 30 September 2009		100,000	5,222	-	67,493	172,715
At 1 October 2009 As previously stated		100,000	5,222	-	67,493	172,715
Effects of adopting RBC Framework	3.1					
- Changes in valuation of claims liabilities		-	-	-	(24,483)	(24,483)
- Changes in fair value of available-for-sale securities		-	-	(14,641)	14,641	-
- Impairment loss of available-for-sale securities		-	-	15,102	(15,102)	-
- Deferred tax	9	-	-	(115)	6,236	6,121
As restated		100,000	5,222	346	48,785	154,353
Net fair value loss on available-for-sale securities		-	-	(2,789)	-	(2,789)
- Deferred tax		-	-	697	-	697
Net profit for the year		-	-	-	42,057	42,057
At 30 September 2010		100,000	5,222	(1,746)	90,842	194,318

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 2010

	Note	2010 RM'000	2009 RM'000
Operating revenue	19	472,398	385,627
Investment income	20	527	610
Management expenses	21	(6)	(8)
		521	602
Transfer from General Insurance Revenue Account		55,449	31,778
Profit before taxation		55,970	32,380
Income tax expense	23	(13,913)	(7,434)
Net profit for the year		42,057	24,946
Basic earnings per share (sen)	24	42.06	24.95

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

PACIFIC & ORIENT INSURANCE CO. BERHAD
(Incorporated in Malaysia)
GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Note	FIRE 2010	FIRE 2009	MOTOR 2010	MOTOR 2009	MARINE, AVIATION AND TRANSIT 2010	MARINE, AVIATION AND TRANSIT 2009	MISCELLANEOUS 2010	MISCELLANEOUS 2009	TOTAL 2010	TOTAL 2009
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	19									472,398	385,627
Gross premium	19	2,476	2,756	383,366	307,164	3,756	3,343	63,491	49,614	453,089	362,877
Reinsurance		(1,144)	(1,313)	(102,037)	(16,675)	(3,479)	(3,077)	(19,983)	(19,659)	(126,643)	(40,724)
Net premium		1,332	1,443	281,329	290,489	277	266	43,508	29,955	326,446	322,153
Decrease/(increase) in premium liabilities	16	84	(83)	11,658	(25,806)	15	(21)	3,611	(5,437)	15,368	(31,347)
Earned premium		1,416	1,360	292,987	264,683	292	245	47,119	24,518	341,814	290,806
Net claims incurred	25	(180)	(531)	(214,732)	(206,895)	16	(97)	(9,740)	(3,076)	(224,636)	(210,599)
Net commission		(120)	(137)	(23,344)	(28,090)	115	94	(10,409)	(6,554)	(33,758)	(34,687)
		(300)	(668)	(238,076)	(234,985)	131	(3)	(20,149)	(9,630)	(258,394)	(245,286)
Underwriting surplus before management expenses		1,116	692	54,911	29,698	423	242	26,970	14,888	83,420	45,520
Management expenses	21									(47,089)	(39,639)
Underwriting surplus										36,331	5,881
Investment income	20									18,782	22,140
Other operating income-net	26									360	3,794
Profit from operations										55,473	31,815
Finance costs	27									(24)	(37)
Transfer to Income Statement										55,449	31,778

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

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER 2010

	2010 RM'000	2009 RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	55,970	32,380
Adjustments for:		
Depreciation of property, plant and equipment	874	1,006
Amortisation of prepaid land lease payments	4	4
Amortisation of intangible assets	45	50
Amortisation of premiums, net of accretion of discounts	197	227
Revaluation deficit of property, plant and equipment	-	353
Net gain from fair value adjustment of investment properties	-	(10)
Loss on disposal of property, plant and equipment	140	-
Write back of diminution in value of investments	-	(24,453)
Impairment loss of AFS securities	1,019	-
(Gain)/loss on disposal of investment securities	(782)	21,844
Write off of property, plant and equipment	5	-
Short term accumulating compensated absences	38	35
Dividend income	(562)	(3,727)
Interest income	(17,865)	(17,304)
Income from Islamic corporate bonds	(541)	(1,506)
Allowance for doubtful debts	3,135	1,503
(Decrease)/increase in premium liabilities	(15,368)	31,347
Interest expense	18	31
Operating profit before working capital changes	26,327	41,780
Changes in working capital:		
Purchase of investment securities	(10,440)	(50,777)
Disposal of investment securities	24,704	98,294
Capital repayment of investment	-	296
Decrease in bankers acceptances	81,945	219,576

CASH FLOW STATEMENT (CONT'D.)
FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Note	2010 RM'000	2009 RM'000
CASH FLOW FROM OPERATING ACTIVITIES (Cont'd.)			
Increase in deposits and placements with financial institutions		(56,318)	(379,366)
(Increase)/decrease in receivables		(39,620)	10,082
(Decrease)/increase in claims liabilities		(65,475)	50,788
Increase/(decrease) in payables		14,581	(4,631)
Cash used in operations		(24,296)	(13,958)
Net tax recoveries/(paid)		1,304	(2,187)
Dividends received		304	1,523
Interest received		18,929	14,851
Income received from Islamic corporate bonds		992	1,703
Interest paid		(18)	(31)
Net cash (used in)/generated from operating activities	29	(2,785)	1,901
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment		276	-
Purchase of property, plant and equipment	5(c)	(408)	(39)
Net cash used in investing activities	28	(132)	(39)
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in hire purchase creditors		(177)	(269)
Net cash used in financing activities	28	(177)	(269)
Net (decrease)/increase in cash and cash equivalents		(3,094)	1,593
Cash and cash equivalents at beginning of year	28	7,909	6,316
Cash and cash equivalents at end of year	28	4,815	7,909
Cash and cash equivalents comprise:			
Cash and bank balances		4,815	7,909

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 2010

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

There have been no significant changes in the nature of this 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 30 November 2010 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

The Risk-Based Capital Framework ("RBC Framework") became effective for all insurers with annual periods beginning on or after 1 January 2009. Accordingly, the Company has implemented the RBC Framework, the effects of which are disclosed in Note 3.1.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

Assets and liabilities of the Company relate to both the general insurance fund and shareholders' fund.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'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 higher than the market values. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same property previously recognised in income statement, in which case the increase is recognised in income statement to the extent of the decrease previously recognised.

A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same property and the balance is thereafter recognised in income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount of the property. Upon disposal or retirement of a property, any revaluation reserve relating to the particular property is transferred directly to retained earnings.

Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over its estimated useful life. The principal annual rates of depreciation are:

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

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

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

The difference between the net disposal proceeds and the net carrying amount is recognised in the general insurance revenue account and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(c) Investment Properties

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(c) Investment Properties (Cont'd.)

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

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

(d) Intangible Assets

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investment Securities

(i) Classification and Measurement

As allowed under the RBC Framework, the Company may classifies and values its holdings of investment securities based on the following categories:

-Held-for-Trading ("HFT")
-Held-to-Maturity ("HTM")
-Available-for-sale ("AFS")

The classification depends on the purpose for which the investment securities were acquired or originated and is determined at initial recognition.

- HFT securities

HFT securities are securities that are acquired or incurred principally for the purpose of selling or repurchasing in the near future.

HFT securities are stated at fair value and any gain or loss arising from a change in the fair value is recognised in the income statement/revenue account.

Interest and dividend income from HFT securities are recognised in the income statement/revenue account.

- HTM securities

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(e) Investment Securities (Cont'd.)

(i) Classification and Measurement (Cont'd.)

- AFS securities

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

AFS securities 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 securities 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/revenue account accordingly. The cumulative gain or loss previously recognised in equity is reclassified into the income statement/revenue account when the AFS security is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

The Company has classified its investment securities into HTM and AFS securities, as applicable.

(ii) Derecognition

Investment securities are derecognised when the rights to receive cash flows from the securities expire or when the Company transfers the securities to another party without retaining control or transfers substantially all risks and rewards of ownership of the transferred security.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Impairment of Investment Securities

The Company assesses at each balance sheet date whether there is any objective evidence that an investment security or a group of investment security is impaired.

Objective evidence that an investment security 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 investment because of financial difficulties which indicate that there is a measurable decrease in the estimated future cash flows.

(i) HTM securities

If there is objective evidence that an impairment loss on a HTM security has been incurred, the amount of impairment loss is measured as the difference between the HTM security'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 HTM security's original effective interest rate/yield. The carrying amount of the HTM security is reduced and the loss is recorded in the income statement/revenue account.

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 loss was recognised, the previously recognised impairment loss is reversed to the extent that the carrying value of the HTM security does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statement/revenue account.

(ii) AFS securities

If an AFS security 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/revenue account. When assessing the impairment of an equity instrument classified as AFS security, the Company considers, in addition to observable data about loss events, whether there is significant or prolonged decline in the fair value of the equity instrument, and whether the cost of the investment in the equity instrument may be recovered. Where there is evidence that the cost of the investment in the equity instrument may not be recovered, impairment loss is provided.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(f) Impairment of Investment Securities (Cont'd.)

(ii) AFS securities (Cont'd.)

Impairment loss in respect of an equity instrument classified as AFS security is not reversed through the income statement/revenue account. Impairment loss on a debt instrument classified as AFS security is reversed through the income statement/revenue account if the increase in the fair value of the debt instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement/revenue account.

(g) Impairment of Non - Financial Assets

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

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

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

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

An impairment loss for an asset is reversed if , and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(g) Impairment of Non - Financial Assets (Cont'd.)

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

(h) 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.

(i) 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.

(j) Equity

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

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

(k) 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.)

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

(i) Premium Income

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

(ii) Premium Liabilities

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

- UPR

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(k) General Insurance Underwritting Results (Cont'd.)

(ii) Premium 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.

(iii) 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.

(iv) Acquisition Cost

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

(l) Provisions

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(m) 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 using the effective yield method.

(n) Foreign Currencies

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(n) Foreign Currencies (Cont'd.)

(ii) Foreign Currency Transactions (Cont'd.)

Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated using the exchange rates prevailing at the dates of transactions. Exchange differences arising on the settlement of monetary items and on the translation of monetary items are included in the income statement/general insurance revenue account for the period in which they arise.

(o) Income Tax

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

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses, unused capital allowances and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses, unused capital allowances and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the balance sheet date.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) Leases

(i) Classification

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

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

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

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

(ii) Finance Leases - the Company as lessee

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

The corresponding liability is included in the balance sheet as hire purchase creditors. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the agreements, when it is practicable to determine; otherwise, the Company’s incremental borrowing rate is used. Any initial direct costs are charged to income statement/general insurance revenue account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

(p) Leases (Cont'd.)

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

The corresponding liability is included in the balance sheet as hire purchase creditors. In calculating the present value of the minimum payments, the discount factor used is the interest rate implicit in the agreements, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used. Any initial direct costs are charged to income statement/general insurance revenue account.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised in the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2 (b).

(iii) Operating Leases - the Company as lessee

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

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

(q) 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.)

(q) Employee Benefits (Cont'd.)

(i) Short term benefits (Cont'd.)

Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

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

(iii) Equity compensation benefits

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

Under FRS 2 – Share-based Payment, the total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase within equity as capital contribution from the holding company over the vesting periods. At each balance sheet date, revision is made to the estimates of the number of options that are expected to vest by vesting date. Any revision of this estimate is included in the income statement and a corresponding adjustment to equity as capital contribution reserve.

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

(r) Cash and Cash Equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Financial Instruments

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

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

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

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

(3.1) The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2009 except for the following:

(i) Changes in valuation of investment securities

Prior to 1 October 2009, investment securities of the Company were stated as follows:

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

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

(3.1) The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2009 except for the following: (Cont'd.)

(i) Changes in valuation of investment securities (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 income statement/general insurance revenue account.

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

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

With the implementation of the RBC Framework effective from 1 October 2009, the Company changed its accounting policies and classified its investment securities into HTM and AFS securities, as applicable. The classification depends on the purpose for which the investment securities were acquired or originated and is determined at initial recognition.

- HTM securities

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

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

(3.1) The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2009 except for the following: (Cont'd.)

(i) Changes in valuation of investment securities (Cont'd.)

- AFS securities

AFS securities are non-derivative financial assets not classified in any other categories.

AFS securities 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 securities 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/revenue account accordingly. The cumulative gain or loss previously recognised in equity is reclassified into the income statement/revenue account when the AFS security is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

(ii) Changes in valuation of premium liabilities

Prior to 1 October 2009, premium liabilities were accounted for via the Unearned Premium Reserves (“UPR”). UPR represent the portion of premium income not yet earned at balance sheet date.

With the implementation of the RBC Framework, the premium liabilities are now accounted for as the higher of (1) UPR or (2) the best estimate value of unexpired risk reserves (“URR”) at balance sheet date and the Provision of Risk Margin for Adverse Deviation (PRAD) calculated at the confidence level of 75% at the overall level of the Company.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

(3.1) The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2009 except for the following: (Cont'd.)

(ii) Changes in valuation of premium liabilities (Cont'd.)

UPR in respect of the individual class of business have been reclassified to conform with the requirements under the RBC Framework wherein the computed UPR by class must not be lower than the estimated URR for that class of business.

As the Company’s UPR is higher than its URR and the PRAD calculated at 75% confidence level at the overall level of the Company, there is no impact on the financial statements.

(iii) Changes in valuation of claims liabilities

Prior to 1 October 2009, provision for claims liabilities was made after taking into account estimated costs of claims including Incurred But Not Reported (IBNR) claims at balance sheet date on the basis of actual claims incurred pattern, using mathematical methods of estimation.

With the implementation of the RBC Framework, the valuation of claims liabilities now include direct and indirect claim-related expenses as well as a PRAD calculated at 75% confidence level at the overall level of the Company. These changes are accounted for in accordance with the transitional provision of the RBC Framework, wherein such adjustments to claims liabilities which relate to previous years’ carrying amounts have been adjusted to the opening retained profits as at 1 October 2009.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

(3.1) The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2009 except for the following: (Cont'd.)

(a) The effects to the newly created AFS reserve and retained profits at 1 October 2009 as a result of the adoption of the RBC Framework are as follows:

	Previously stated	Increase/ (decrease)	Restated
	RM'000	RM'000	RM'000
Description of change			
Available-for-sale reserve	-	346	346
- Changes in fair value of investments		(14,641)	
- Impairment loss of AFS securities		15,102	
- Deferred tax (Note 9)		(115)	
Retained profits	67,493	(18,708)	48,785
- Change in valuation of claims liabilities (Note 25)		(24,483)	
- Reversal of allowance for diminution in value of investments		14,641	
- Impairment loss of AFS securities		(15,102)	
- Deferred tax (Note 9)		6,236	

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

(3.1) The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2009 except for the following: (Cont'd.)

(b) The effects to the current financial statements as a result of the adoption of the RBC Framework are as follows:

Balance Sheet as at 30 September 2010

Description of change	(Decrease)/ increase RM'000
Investment securities	(2,789)
Deferred tax assets (Note 9)	697
AFS reserve	(2,092)

Income statement for financial year ended 30 September 2010

Description of change	Decrease/ (increase) RM'000
Net other operating (income)/expenses	
Reversal of allowance for diminution in value of investment securities	(3,533)
Gain on disposal of investment securities	(307)
Impairment loss of AFS securities (Note 26)	1,019
Income tax expense	705

The effects on the balance sheet and the income statements in respect of claims liabilities for the current financial year ended 30 September 2010 have not been disclosed as it is impracticable to estimate the impact.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

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

Effective for financial periods on or after 1 January 2010

FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments - Recognition and Measurement
Amendments to FRS 1 and FRS 127	Amendments to FRS 1: First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendment to FRS 2	Share-based Payment-Vesting Conditions and Cancellations
Amendments to FRS 132	Financial Instruments: Presentation
Amendments to FRS 139, FRS 7 and IC Interpretation 9	Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9: Reassessment of Embedded Derivatives

Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"

IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

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

Effective for financial periods on or after 1 January 2010

IC Interpretation 11	FRS 2: Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Effective for financial periods on or after 1 March 2010

Amendments to FRS 132	Financial Instruments: Presentation

Effective for financial periods on or after 1 July 2010

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 3	Business Combinations
FRS 127	Consolidated and Separate Financial Statements
Amendments to FRS 2	Share-based Payment
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138	Intangible Assets
Amendments to IC Interpretation 9	IC Interpretation 9 : Reassessment of Embedded Derivatives

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

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

Effective for financial periods on or after 1 July 2010

IC Interpretation 12	Service Concession Arrangement
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17	Distributions of Non-cash Assets to Owners

Effective for financial periods 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

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 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)

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF RBC FRAMEWORK AND NEW AND REVISED FRSs (CONT'D.)

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

Effective for financial periods on or after 1 January 2012

FRS 124	Related Party Disclosure
Amendment to IC Interpretation 15	Agreements for the Construction of Real Estate

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

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

Amendments to FRSs 1 and 127, FRSs 8, 119, 120, 127, 128, 131 and 134 contained in the document entitled "Improvements to FRSs (2009)", IC Interpretations 10, 13 and 14, (effective for financial periods on or after 1 January 2010), FRSs 3, 127, IC Interpretation 12, 15 and 16 (effective for financial periods on or after 1 July 2010), FRSs 3, 121, 128, 131, 134 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 period on or after 1 July 2011) and Amendment to IC Interpretation 15 (effective for financial period on or after 1 January 2012) are not applicable to the Company.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical Judgement Made in Applying Accounting Policies

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

Classification between Investment Properties and Property, Plant and Equipment

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

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

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

(b) Key Sources of Estimation Uncertainty

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

(i) Depreciation and amortisation

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

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

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

(ii) Impairment of non-financial assets

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

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

(iii) Uncertainty in accounting estimates 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 balance sheet date whilst URR is determined based on estimates of expected future payments arising from future events insured under policies in force at balance sheet date, including expected future premium refunds.

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

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

(iii) Uncertainty in accounting estimates for general insurance business (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. It is certain that actual claim liabilities will not exactly develop as projected and may vary from the projections.

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

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

The 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.

(iv) Deferred tax assets

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

Details of deferred tax assets are disclosed in Note 9.

5. PROPERTY, PLANT AND EQUIPMENT

	<----Valuation	---->		<----Cost			---->	
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
2010	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Valuation/Cost:								
At beginning of year	520	541	15,380	7,962	1,903	1,476	3,154	30,936
Additions	-	-	-	2	1,039	149	48	1,238
Disposals	-	-	-	-	(754)	(8)	-	(762)
Write offs	-	-	-	(350)	-	(15)	(3)	(368)
At end of year	520	541	15,380	7,614	2,188	1,602	3,199	31,044
Accumulated Depreciation:								
At beginning of year	-	12	471	7,834	628	1,271	2,850	13,066
Charge for the year	-	14	566	57	131	39	67	874
Disposals	-	-	-	-	(340)	(6)	-	(346)
Write offs	-	-	-	(348)	-	(12)	(3)	(363)
At end of year	-	26	1,037	7,543	419	1,292	2,914	13,231
Net Book Value:								
At end of year	520	515	14,343	71	1,769	310	285	17,813

5. PROPERTY, PLANT AND EQUIPMENT

	<--Valuation--		-->	<--Cost--				-->
	Freehold land	Buildings Freehold	Buildings Leasehold	Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Valuation/Cost:								
At beginning of year	380	378	13,472	7,962	1,903	1,473	3,133	28,701
Additions	-	-	-	3	-	15	21	39
Disposals	-	-	-	-	-	(12)	-	(12)
Write offs	-	-	-	(3)	-	-	-	(3)
Transferred to revaluation reserve	140	163	2,261	-	-	-	-	2,564
Revaluation deficit	-	-	(353)	-	-	-	-	(353)
At end of year	520	541	15,380	7,962	1,903	1,476	3,154	30,936
Accumulated Depreciation:								
At beginning of year	-	55	4,288	7,596	535	1,226	2,773	16,473
Charge for the year	-	13	525	241	93	57	77	1,006
Disposals	-	-	-	-	-	(12)	-	(12)
Write offs	-	-	-	(3)	-	-	-	(3)
Transferred to revaluation reserve	-	(56)	(4,342)	-	-	-	-	(4,398)
At end of year	-	12	471	7,834	628	1,271	2,850	13,066
Net Book Value:								
At end of year	520	529	14,909	128	1,275	205	304	17,870

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

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

The net book values of the freehold land and buildings and leasehold buildings of the Company had the cost model been applied, compared to the revaluation model as at 30 September 2010 are as follows:

	Net Book Value		Net Book Value	
	2010	2010	2009	2009
	Under Revaluation Model	Under Cost Model	Under Revaluation Model	Under Cost Model
	RM’000	RM’000	RM’000	RM’000
Freehold land	520	380	520	380
Freehold buildings	515	306	529	314
Leasehold buildings	14,343	8,544	14,909	8,864
	15,378	9,230	15,958	9,558

(b) The net book value of motor vehicles held under hire purchase arrangements is RM1,385,000 (2009 : RM836,000).

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

	2010	2009
	RM'000	RM'000
Cash	408	39
Hire purchase	830	-
	1,238	39

6. INVESTMENT PROPERTIES

	2010	2009
	RM'000	RM'000
At beginning of year	645	635
Gain on fair value adjustment (Note 26)	-	10
At end of year	645	645

6. INVESTMENT PROPERTIES (CONT'D.)

	2010 RM'000	2009 RM'000
Analysed as:		
Freehold buildings	415	415
Leasehold buildings	230	230
	645	645

7. PREPAID LAND LEASE PAYMENTS

	2010 RM'000	2009 RM'000
Long term leasehold land:		
At beginning of year	330	334
Amortisation (Note 21)	(4)	(4)
At end of year	326	330

8. INTANGIBLE ASSETS

	2010 RM'000	2009 RM'000
Computer software and licences:		
Cost		
At beginning of year/end of year	1,102	1,102
Accumulated amortisation :		
At beginning of year	924	874
Amortisation (Note 21)	45	50
At end of year	969	924
Net Book Value	133	178

9. DEFERRED TAX

	2010 RM'000	2009 RM'000
At beginning of year as previously stated	2,813	11,785
Effect of adopting RBC Framework	6,121	-
At beginning of year as restated	8,934	11,785
Transfer from income statement (Note 23)	(6,051)	(7,232)
Transfer from revaluation reserve	-	(1,740)
Transfer to AFS reserve	697	-
At end of year	3,580	2,813

Presented after appropriate offsetting as follows:

	2010 RM'000	2009 RM'000
Deferred tax assets	5,508	4,762
Deferred tax liabilities	(1,928)	(1,949)
At end of year	3,580	2,813

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

2010	Revaluation Deficit RM'000	Premium Liabilities RM'000	Changes in Fair Value of AFS Securities RM'000	Claims Liabilities RM'000	Allowance for Diminution in Value of Investment Securities RM'000	Accumulated Impairment Loss RM'000	Total RM'000
At beginning of year as previously stated	88	11	-	-	4,663	-	4,762
Effects of adopting RBC Framework:							
- Changes in valuation of claims liabilities	-	-	-	6,121	-	-	6,121
- Changes in fair value of AFS securities	-	-	(115)	-	(4,663)	4,778	-
At beginning of year, restated	88	11	(115)	6,121	-	4,778	10,883
Recognised in the income statement	-	-	-	(6,121)	-	49	(6,072)
Recognised in the AFS reserve	-	-	697	-	-	-	697
At end of year	88	11	582	-	-	4,827	5,508

9. DEFERRED TAX (CONT'D.)

The components and movements of deferred tax assets in previous year prior to offsetting are as follows:

Deferred Tax Assets	Revaluation Deficit RM'000	Premium Liabilities RM'000	Changes in Fair Value of AFS Securities RM'000	Claims Liabilities RM'000	Allowance for Diminution in Value of Investment Securities RM'000	Accumulated Impairment Loss RM'000	Total RM'000
2009							
At beginning of year	-	-	11	-	12,056	-	12,067
Recognised in the income statement	88	-	-	-	(7,393)	-	(7,305)
At end of year	88	-	11	-	4,663	-	4,762

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 2010	Revaluation Surplus RM'000	Accelerated Capital Allowances RM'000	Total RM'000
At beginning of year	(1,740)	(209)	(1,949)
Recognised in the income statement	-	21	21
At end of year	(1,740)	(188)	(1,928)

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

10. INVESTMENT SECURITIES

The Company's investment securities as at 30 September 2010 have been categorised as follows:

Available-for-sale securities:	RM'000
At fair value:	
Quoted shares	17,378
Unit trusts	12,969
Total available-for-sale securities	30,347

10. INVESTMENT SECURITIES (CONT'D.)

	2010
	RM'000
Held-to-maturity securities:	
At amortised cost:	
Malaysian Government Securities	70,341
Net accretion of discount and amortisation of premiums	35
Total held-to-maturity securities	70,376
Total investment securities	100,723
At fair value:	
Malaysian Government Securities	70,826

The Company's investment securities as at 30 September 2009 are detailed as follows:

At cost:	RM'000
Money market instruments:	
Malaysian Government Securities	70,737
Accretion of discounts	217
	70,954
Islamic corporate bonds	15,651
Amortisation of premiums	(206)
	15,445
Quoted securities:	
Shares in Malaysia	29,080
Shares outside Malaysia	4,423
	33,503
Allowance for diminution in value	(14,527)
	18,976
Unit trusts	12,632
Total investment securities	118,007
Market value:	
Malaysian Government Securities	71,764
Islamic corporate bonds	15,459
Shares quoted in Malaysia	17,321
Shares quoted outside Malaysia	1,655
Unit trusts	12,632

10. INVESTMENT SECURITIES (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:

	Range of effective interest rates per annum %	Contractual repricing or maturity date (whichever is earlier) Less than 1 year RM'000	1 to 5 years RM'000	More than 5 years RM'000	Total carrying amount RM'000
2010					
Held-to-maturity securities:					
-Malaysian Government Securities	2.51 to 4.65	25,075	40,299	5,002	70,376
2009					
Malaysian Government Securities	2.51 to 4.65	5,364	65,590	-	70,954

The effective profit rate of the Islamic corporate bonds as at 30 September 2009 was between 6.70% and 8.00% per annum and the maturity profile of these bonds were as follows:

	RM'000
Less than 1 year	5,009
1 to 5 years	5,167
More than 5 years	5,269
	15,445

11. RECEIVABLES

	2010 RM'000	2009 RM'000
Trade receivables:		
Outstanding premiums including agents, brokers' and co-insurers' balance	11,205	10,972
Due from reinsurers and ceding companies	39,983	4,965
	51,188	15,937
Allowance for doubtful debts	(6,119)	(3,017)
	45,069	12,920
Other receivables:		
Due from fellow subsidiary company*	187	-
Accrued income	5,037	6,551
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	8,633	4,108
Deposits and prepayments	743	981
Tax recoverable	368	4,381
Others	519	657
	15,487	16,678
	60,556	29,598

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

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

12. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	General Insurance and shareholders' fund	
	2010	2009
	RM'000	RM'000
Deposits and placements with licensed financial institutions:		
Commercial banks	407,257	344,473
Investment banks	134,832	141,298
Bankers acceptances	-	81,945
	542,089	567,716

Deposits and placements amounting to RM243,000 (2009: RM249,000) represent deposits given by the insureds as collateral for bond guarantees granted to third parties.

As at balance sheet date, the range of effective interest rates and the earlier of the contractual repricing or maturity dates for the deposits and placements with financial institutions are as follows:

	Range of effective interest rates per annum	Contractual repricing or maturity date (whichever is earlier)		Total
		Less than 1 year	1 to 5 years	Carrying amount
	%	RM'000	RM'000	RM'000
2010				
Deposits and placements with financial institutions	2.35 to 3.45	542,089	-	542,089
2009				
Deposits and placements with financial institutions	1.60 to 3.85	485,771	-	485,771
Bankers acceptances	2.05 to 2.17	81,945	-	81,945
		567,716	-	567,716

13. CLAIMS LIABILITIES

	2010 RM'000	2009 RM'000
Claims liabilities	380,019	396,762
Claims recoverable from reinsurers	(63,251)	(39,002)
Net claims liabilities	316,768	357,760

The claims liabilities have been estimated by an independent professional actuary. Included in the claims liabilities is an amount of RM102,085,000 (2009: RM108,595,000) in respect of net provision for Incurred But Not Reported (IBNR) claims.

14. PAYABLES

	2010 RM'000	2009 RM'000
Trade payables:		
Due to reinsurers and ceding companies	21,706	6,652
Due to agents, brokers, co-insurers and insureds	1,446	1,776
	23,152	8,428
Other payables:		
Due to:		
- holding company*	41	43
- fellow subsidiary companies*	-	974
Accruals	689	633
Collateral deposits	239	257
Insurance Guarantee Scheme Fund (IGSF) levy	903	767
Refund premiums	185	130
Service tax payable	157	202
Short term accumulating compensated absences	447	410
Stamp duty payable	1,831	1,641
Unclaimed monies	195	167
Accrual of directors' fees	235	128
Sundry creditors	741	702
Others	471	186
	6,134	6,240
	29,286	14,668

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

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

15. HIRE PURCHASE CREDITORS

	2010 RM'000	2009 RM'000
Future minimum payments:		
Not later than 1 year	272	171
Later than 1 year and not later than 2 years	504	161
Later than 2 years and not later than 5 years	359	40
Total future minimum payments	1,135	372
Less: Future finance charges	(132)	(22)
Present value of hire purchase liabilities	1,003	350
Analysis of present value of hire purchase liabilities:		
Not later than 1 year	221	159
Later than 1 year and not later than 2 years	441	152
Later than 2 years and not later than 5 years	341	39
	1,003	350

The hire purchase arrangements at the balance sheet date bore interest between 2.63% and 6.09% (2009: 2.87% and 5.52%) per annum.

16. PREMIUM LIABILITIES

	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
2010					
At beginning of year as previously stated	760	140,780	110	57,923	199,573
Effect of adopting RBC Framework	(42)	4,018	8	(3,984)	-
At beginning of year as restated	718	144,798	118	53,939	199,573
Decrease	(84)	(11,658)	(15)	(3,611)	(15,368)
At end of year	634	133,140	103	50,328	184,205

16. PREMIUM LIABILITIES (CONT'D.)

	Fire	Motor	Marine, Aviation And Transit	Miscellaneous	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2009					
At beginning of year	677	114,974	89	52,486	168,226
Increase	83	25,806	21	5,437	31,347
At end of year	760	140,780	110	57,923	199,573

17. SHARE CAPITAL

	Number of shares		Amount	
	2010	2009	2010	2009
	'000	'000	RM'000	RM'000
Authorised shares of RM1.00 each	100,000	100,000	100,000	100,000
Issued and fully paid ordinary shares of RM1.00 each	100,000	100,000	100,000	100,000

18. 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 2010, the Company has sufficient tax credits in the Section 108 balance to pay franked dividends out of its entire retained earnings.

19. OPERATING REVENUE

	2010 RM'000	2009 RM'000
Insurance fund		
Gross premium	453,089	362,877
Investment income (Note 20)	18,782	22,140
	471,871	385,017
Shareholder's fund		
Investment income (Note 20)	527	610
	472,398	385,627

20. INVESTMENT INCOME

	2010 RM'000	2009 RM'000
Insurance fund		
Gross dividends:		
- shares quoted in Malaysia	369	3,536
- unit trusts	193	191
Interest income:		
- HTM Securities / Malaysian Government Securities	2,729	2,656
- bankers acceptances	364	5,729
- deposits and placements with financial institutions	14,245	8,309
Income from Islamic corporate bonds	541	1,506
Rental of properties:		
- third parties	48	45
- fellow subsidiary companies	-	2
- holding company	256	264
Malaysian Motor Insurance Pool ("MMIP") investment income	168	129
Malaysian Reinsurance Berhad ("MRB") investment income	66	-
Amortisation of premiums, net of accretion of discounts	(197)	(227)
	18,782	22,140
Shareholder's fund		
Interest income:		
- bankers acceptances	265	610
- deposits and placements with financial institutions	262	-
	527	610

21. MANAGEMENT EXPENSES

	2010 RM'000	2009 RM'000
Insurance fund		
Executive Directors' remuneration (Note 22)	512	624
Staff salaries and bonus	13,339	11,882
Staff short term accumulating compensated absences	27	60
Pension costs - defined contribution plan	1,595	1,420
Other staff benefits	1,243	998
Depreciation of property, plant and equipment	874	1,006
Amortisation:		
- prepaid land lease payments (Note 7)	4	4
- intangible assets (Note 8)	45	50
Auditors' remuneration	132	124
Non-Executive Directors' remuneration (Note 22)	235	128
Directors' training	100	-
Allowance for doubtful debts	3,135	1,503
Rental of properties:		
- third parties	415	387
- fellow subsidiary company	135	129
IGSF levy	903	767
Management fees to holding company	866	833
Call centre service charges to fellow subsidiary company	612	592
Rental of equipment:		
- third party	135	132
- fellow subsidiary company	1,770	1,356
Printing and EDP expenses	9,316	8,117
Business development	1,438	948
Bank charges	63	60
Credit card charges	4,532	3,556
Office administration and utilities	1,858	1,702
Other expenses	3,805	3,261
	47,089	39,639
Shareholder's fund		
Staff salaries and bonus	3	4
Pension costs - defined contribution plan	1	1
	4	5
Other expenses	2	3
	6	8

22. DIRECTORS' REMUNERATION

	2010 RM'000	2009 RM'000
Insurance fund		
Executive Directors:		
- Salaries	381	535
- Bonuses	31	-
- Pension costs - defined contribution plan	54	69
- Benefits-in-kind	20	42
- Short term accumulating compensated absences	10	(25)
- Allowances	36	45
	532	666
Non-Executive Directors:		
- Fees	235	128
Total Directors' remuneration	767	794
Total Executive Directors' Remuneration excluding benefits-in-kind	512	624

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM522,000 (2009: RM487,000).

23. INCOME TAX EXPENSE

	2010 RM'000	2009 RM'000
Income tax:		
Current year's provision	8,326	576
Under provision in prior years	(464)	(374)
	7,862	202
Deferred tax		
Relating to timing differences	6,048	7,231
Under provision in prior years	3	1
Transfer to deferred taxation (Note 9)	6,051	7,232
	13,913	7,434

23. INCOME TAX EXPENSE (CONT'D.)

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:

	2010 RM'000	2009 RM'000
Profit before taxation	55,970	32,380
Taxation at Malaysian statutory tax rate of 25%	13,992	8,095
Group tax relief *	(663)	-
Over provision of income tax in prior years	(464)	(374)
Under provision of deferred tax in prior years	3	1
Income not subject to tax	(102)	(937)
Expenses not deductible for tax purposes	1,147	649
Tax expense for the year	13,913	7,434

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

As at 30 September 2010, the Company has:

- a tax exempt account balance of approximately RM59,939,000 (2009: RM59,909,000), subject to agreement with the Inland Revenue Board, which is available for distribution.

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

24. BASIC EARNINGS PER SHARE (SEN)

Basic earnings per ordinary share of the Company is calculated by dividing the net profit of RM42,057,000 (2009: net profit of RM24,946,000) for the financial year by 100,000,000 ordinary shares.

25. NET CLAIMS INCURRED

2010	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
Gross claims paid less salvage	807	298,892	2,292	12,673	314,664
Reinsurance recoveries	(393)	(16,014)	(2,188)	(5,958)	(24,553)
Net claims paid (a)	414	282,878	104	6,715	290,111
Net claims liabilities:					
At end of year (b) (Note 13)	439	307,610	302	8,417	316,768
At beginning of year as previously stated	(590)	(351,889)	(390)	(4,891)	(357,760)
- Effect of adopting RBC Framework	(83)	(23,867)	(32)	(501)	(24,483)
At beginning of year as restated (c)	(673)	(375,756)	(422)	(5,392)	(382,243)
Net claims incurred (a+b+c)	180	214,732	(16)	9,740	224,636

2009	Fire RM'000	Motor RM'000	Marine, Aviation And Transit RM'000	Miscellaneous RM'000	Total RM'000
Gross claims paid less salvage	547	167,463	301	4,320	172,631
Reinsurance recoveries	(53)	(10,447)	(177)	(2,143)	(12,820)
Net claims paid (a)	494	157,016	124	2,177	159,811
Net outstanding claims:					
At end of year (b) (Note 13)	590	351,889	390	4,891	357,760
At beginning of year (c)	(553)	(302,010)	(417)	(3,992)	(306,972)
Net claims incurred (a+b+c)	531	206,895	97	3,076	210,599

26. OTHER OPERATING INCOME - NET

	2010 RM'000	2009 RM'000
Insurance fund		
Gain/(loss) on disposal of investment securities	782	(21,844)
Loss on disposal of property, plant and equipment	(140)	-
Sundry income	744	1,124
Surplus on return of capital from investment	-	456
Write back of diminution in value of investments	-	24,453
Revaluation deficit of property, plant and equipment	-	(353)
Other expenses	(2)	(52)
Gain on fair value adjustment of investment properties (Note 6)	-	10
Assets written off	(5)	-
Impairment loss of AFS securities	(1,019)	-
	360	3,794

27. FINANCE COSTS

	2010 RM'000	2009 RM'000
Insurance fund		
Hire-purchase interest	18	31
Others	6	6
	24	37

28. SEGMENT INFORMATION ON CASH FLOW

	Insurance fund		Shareholder's funds		Total	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flow from:						
Operating activities	(2,778)	1,900	(7)	1	(2,785)	1,901
Investing activities	(132)	(39)	-	-	(132)	(39)
Financing activities	(177)	(269)	-	-	(177)	(269)
	(3,087)	1,592	(7)	1	(3,094)	1,593

28. SEGMENT INFORMATION ON CASH FLOW (CONT'D.)

	Insurance fund		Shareholder's funds		Total	
	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net increase in cash and cash equivalents	(3,087)	1,592	(7)	1	(3,094)	1,593
Cash and cash equivalents:						
At beginning of year	7,901	6,309	8	7	7,909	6,316
At end of year	4,814	7,901	1	8	4,815	7,909

29. COMMITMENTS AND CONTINGENCIES

	2010	2009
(a) Non-cancellable operating lease commitments	RM'000	RM'000
Future minimum lease payments are as follows:		
Not later than 1 year	1,204	793
Later than 1 year and not later than 5 years	1,337	589
	2,541	1,382

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 RM1,094,000 (2009: RM903,000) in the following financial year to the Insurance Guarantee Scheme Fund.

30. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	2010	2009
	RM'000	RM'000
(Income)/ expense:		
Holding company:		
Rental income	(256)	(264)
Management fees	866	833

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

	2010 RM'000	2009 RM'000
Fellow subsidiaries of Pacific & Orient Berhad Group:		
Office rental	135	129
Information technology services fee	2,283	2,247
Call centre service charge	612	592
Leasing of office equipment	1,386	984
Repair and maintenance	68	69
Purchase of property, plant and equipment	89	-
Rental of equipment	3,141	2,536
Related company in which a director has deemed interest:		
Insurance premiums	(109)	(153)

Information regarding outstanding balances arising from related party transactions as at 30 September 2010 are disclosed in Notes 11 and 14.

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

(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:

	2010 RM'000	2009 RM'000
Short-term employee benefits		
Salary and other remuneration	381	535
Bonus	31	-
Allowances	36	45
Short term accumulating compensated absences	10	(25)
Benefits-in-kind	20	42
Post-employment benefits:		
Pension cost-defined contribution plan	54	69
	532	666

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

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

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

	ESOS	
	2010	2009
	'000	'000
At beginning	1,700	1,700
Exercised	(1,700)*	-
End of year	-	1,700

* Before share split of the holding company.

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

31. RISK-BASED CAPITAL FRAMEWORK

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

As at 30 September 2010, the Company has met the supervisory target capital level as stipulated in the RBC Framework.

32. 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.

32. FINANCIAL INSTRUMENTS (CONT'D.)

(b) Underwriting Risk

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

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

(c) Credit Risk

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

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

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

The Company's credit risk exposure to Islamic corporate bonds, as at 30 September 2009 is analysed as follows:

	RM'000
Rating of Islamic corporate bonds on market value basis:	
AA 3	5,116
A+	10,343
	15,459

	RM'000
Analysis of Islamic corporate bonds by industry segments:	
Power	5,116
Infrastructure & utilities	10,343
	15,459

32. FINANCIAL INSTRUMENTS (CONT'D.)

(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.

(f) Foreign Exchange Risk

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

(g) Liquidity Risk

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

(h) Derivatives

As at 30 September 2010 and 2009, the Company did not transact in any derivative instruments for hedging purposes.

32. FINANCIAL INSTRUMENTS (CONT'D.)

(i) Fair Values

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

	2010 Carrying amount RM'000	2009 Carrying amount RM'000	2010 Fair value RM'000	2009 Fair value RM'000
Financial Assets				
HTM securities	70,376	70,954	70,826	71,764
Due from fellow subsidiary companies	187	-	187	-
Financial Liabilities				
Due to holding company	41	43	41	43
Due to fellow subsidiary companies	-	974	-	974
Hire purchase creditors	1,003	350	1,011	361

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

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

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

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

32. FINANCIAL INSTRUMENTS (CONT'D.)

(i) Fair Values (Cont'd.)

(ii) HTM securities

- Malaysian Government Securities

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

(iii) AFS securities

- Quoted Securities

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

33. COMPARATIVE FIGURES

The following comparative figures have been reclassified to conform with current year's presentation pursuant to the adoption of the RBC Framework for insurers.

	As previously stated	Reclassification	As reclassified
		RM'000	RM'000
Investments	685,723	(685,723)	-
Investment securities	-	118,007	118,007
Deposits and placement with licensed financial institutions	-	567,716	567,716