

Company No: 12557 W

**PACIFIC & ORIENT INSURANCE CO. BERHAD**

**(12557-W)**

**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements**

**For Financial Year Ended 30 September 2004**

Company No: 12557 W

PACIFIC & ORIENT INSURANCE CO. BERHAD

Company No: 12557 W  
(Incorporated in Malaysia)

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PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Company for the financial year ended 30 September 2004.

PRINCIPAL ACTIVITY

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

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

RESULTS

	RM'000
Net profit for the year	13,009
Accumulated profits brought forward	<u>38,556</u>
Accumulated profits carried forward	<u><u>51,565</u></u>

DIVIDENDS

No dividends were paid or declared by the Company since the end of the previous financial year. The Directors do not recommend the payment of any dividend for the current financial year.

RESERVES AND PROVISIONS

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

PROVISION FOR OUTSTANDING CLAIMS

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

### BAD AND DOUBTFUL DEBTS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that 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 amounts to be written off as bad debts or render the amount allowed for as doubtful debts in the financial statements of the Company inadequate to any substantial extent.

### CURRENT ASSETS

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

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

### VALUATION METHODS

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

### CONTINGENT AND OTHER LIABILITIES

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

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

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

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

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

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 :

Chan Thye Seng

Michael Yee Kim Shing

Ong Eng Soon

Y.Bhg. Dato' Abu Hanifah Bin Noordin

Abdul Rahman Bin Talib

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Seth (appointed on 27 July 2004)

Y.Bhg. Tan Sri Dato' Soong Siew Hoong (resigned on 13 February 2004)

Y.M. Tunku Mu'tamir Bin Tunku Tan Sri Mohamed (resigned on 5 May 2004)

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

In accordance with Article 75 of the Company's Articles of Association, Micheal Yee Kim Shing and Ong Eng Soon retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Notes 14 and 15 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

	<u>Number of Ordinary Shares of RM1.00 Each</u>			
	As at 1 October <u>2003</u>	<u>Bought</u>	<u>Sold</u>	As at 30 September <u>2004</u>
<u>The Company</u>				
Chan Thye Seng - Indirect interest	100,000,000	-	-	100,000,000
<u>Pacific &amp; Orient Berhad (Holding Company)</u>				
Chan Thye Seng - Direct interest	8,465,902	-	116,600	8,349,302
- Indirect interest	48,554,098	105,000	-	48,659,098
Michael Yee Kim Shing - Indirect interest	155,000	1,000,000	-	1,155,000
Y.Bhg. Dato' Abu Hanifah Bin Noordin - Indirect interest	-	3,500,000	1,100,000	2,400,000

DIRECTORS' INTERESTS (Cont'd)

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

<u>Names of option holders</u>	<u>Number of Share Options Under ESOS of RM1.00 Each</u>				
	<u>Exercise Price</u> <u>RM</u>	<u>As at</u> <u>1 October</u> <u>2003</u>	<u>Granted</u>	<u>Exercised</u>	<u>As at 30</u> <u>September</u> <u>2004</u>
Chan Thye Seng	1.27	900,000	-	-	900,000
Ong Eng Soon	1.27	850,000	-	-	850,000
Abdul Rahman Bin Talib	1.27	850,000	-	-	850,000

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

None of the other Directors who were in office at the end of the financial year had any interest in the shares of the Company or its related corporations during the financial year.

CORPORATE GOVERNANCE

The Board and management have considered Bank Negara Malaysia's (BNM) 'Prudential Framework of Corporate Governance for Insurers' ("the Framework") (JPI/GPI 25) 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 Committees

The Board has delegated certain responsibilities to four Board Committees, namely the Audit, Nominating, Remuneration and Risk Management Committee which operate within clearly defined terms of reference.

1. Audit Committee

Membership:

Michael Yee Kim Shing (Chairman)  
Independent, Non-Executive Director

Y.Bhg. Dato' Abu Hanifah Bin Noordin  
Independent, Non-Executive Director

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Seth (appointed on 27 July 2004)  
Independent, Non-Executive Director

Ong Eng Soon  
Non-Independent, Executive Director

Tan Sri Dato' Soong Siew Hoong (resigned 13 February 2004)  
Independent, Non- Executive Director

Y.M. Tunku Mu'tamir Bin Tunku Tan Sri Mohamed (resigned on 5 May 2004)  
Independent, Non-Executive Director

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 and report on the following to the Board:
  - (a) Co-ordination with the External Auditors, including matters pertaining to their audit plan, fees, auditors' reports, management letters and liaison with Internal Audit.
  - (b) The independence and objectivity of the internal audit function as well as specification of their annual audit plan, specific coverage for critical areas, key functions and availability of resources. The Audit Committee ensures that the highest quality of and compliance standards on internal auditing are adhered to and that all findings, including those arising from specific investigations, are resolved on a timely basis.
  - (c) The quarterly and annual results of the Company prior to presentation for approval to the Board of Directors. The Audit Committee ensures that the publication of financial statements and submissions of returns to BNM are dealt with promptly.
  - (d) The propriety of any related party transaction and potential conflict of interest situations that may arise, including any transaction, procedure or course of conduct that may raise questions about management's integrity.



1. Audit Committee (Cont'd)

Functions and Duties (Cont'd)

- (iii) To prepare the Audit Committee Report for submission to BNM, not later than 31 January of each year covering the composition of the Committee, number of meetings held and attendance thereon, as well as the activities undertaken by the Audit Committee and Internal Audit function during the year.
- (iv) To review and ensure that all prescriptive and best practise requirements of JPI/GPI 25 are complied with.
- (v) To perform any other work required or empowered by statutory legislation or guidelines issued by the relevant government or regulatory authorities.

There were six meetings held during the financial year.

2. Nominating Committee

Membership:

Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)  
Independent, Non-Executive Director

Michael Yee Kim Shing  
Independent, Non-Executive Director

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Seth (appointed on 27 July 2004)  
Independent, Non-Executive Director

Abdul Rahman Bin Talib  
Non-Independent Director, Chief Executive Officer

Chan Thye Seng  
Non-Independent, Non-Executive Director

Y.M. Tunku Mu'tamir Bin Tunku Tan Sri Mohamed (resigned on 5 May 2004)  
Independent, Non-Executive Director

Functions and Duties

- (i) To oversee, via an annual review, the overall composition of the Board in terms of number of directors, the balance between Executive, Non-Executive and Independent Directors, mix of skills, expertise and experience, and other core competencies required.
- (ii) To recommend and assess the nominees for directorships, the Directors to fill Board Committees as well as nominees for the Chief Executive Officer position.

2. Nominating Committee (Cont'd)

Functions and Duties

- (iii) To establish a mechanism for the formal assessment of the effectiveness of the Board as a whole, the contributions of each Director to the effectiveness of the Board, as well as the contribution of the various Board committees and the performance of the Chief Executive Officer. These assessments are carried out on an annual basis.
- (iv) To make recommendation to the Board on the removal of a Director/Chief Executive Officer should he be considered ineffective, errant or negligent in discharging his responsibilities.
- (v) To identify and recommend suitable programmes to ensure existing 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.

There were three meetings held during the financial year.

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

Membership:

Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)  
Independent, Non-Executive Director

Michael Yee Kim Shing  
Independent, Non-Executive Director

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Seth (appointed on 30 August 2004)  
Independent, Non-Executive Director

Chan Thye Seng  
Non-Independent, Non-Executive Director

Y.M. Tunku Mu'tamir Bin Tunku Tan Sri Mohamed (resigned on 5 May 2004)  
Independent, Non-Executive Director-

3. Remuneration Committee (Cont'd)

Functions and Duties

- (i) To determine and recommend for approval of the Board, the framework or broad policies relating to terms of employment and remuneration of the Directors, Chief Executive Officer and key senior officers. The framework/policies are consistent with the requirements of JPI: 13/2003.
- (ii) To recommend to the Board the remuneration packages for Executive Directors, Chief Executive Officer and key senior officers. The remuneration packages for Executive Directors are structured such that they link rewards to corporate and individual performances to encourage high performance standards.
- (iii) To review and recommend to the Board the remuneration of the non-Executive Directors. A non-Executive Director shall abstain from discussions relating to his remuneration, within the limits set by the shareholders. The remuneration of a non-Executive Director should reflect the level of responsibilities undertaken and contributions to the effectiveness of the Board.

There were two meetings held during the financial year.

4. Risk Management Committee

Membership:

Y.Bhg. Dato' Abu Hanifah Bin Noordin (Chairman)  
Independent, Non-Executive Director

Michael Yee Kim Shing  
Independent, Non-Executive Director

Y.Bhg. Gen (R) Tan Sri Dato' Mohd Ghazali Seth (appointed on 30 August 2004)  
Independent, Non-Executive Director

Chan Thye Seng  
Non-Independent, Non-Executive Director

Y.M. Tunku Mu'tamir Bin Tunku Tan Sri Mohamed (resigned on 5 May 2004)  
Independent, Non-Executive Director

4. Risk Management Committee (Cont'd)

Risk Management Framework

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

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

Functions and Duties

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

There were three meetings held during the financial year.

Company No: 12557 W

HOLDING AND ULTIMATE HOLDING COMPANY

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

AUDITORS

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

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

GEN (R) TAN SRI DATO'  
MOHD GHAZALI SETH

ABDUL RAHMAN BIN TALIB

Kuala Lumpur  
Dated: 29 November 2004

PACIFIC & ORIENT INSURANCE CO. BERHAD

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, GEN (R) TAN SRI DATO' MOHD GHAZALI SETH and ABDUL RAHMAN BIN TALIB, being two of the Directors of PACIFIC & ORIENT INSURANCE CO. BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 14 to 47, are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 September 2004 and of the results and cash flows of the Company for the year then ended.

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

GEN (R) TAN SRI DATO'  
MOHD GHAZALI SETH

ABDUL RAHMAN BIN TALIB

Kuala Lumpur  
Dated: 29 November 2004

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 14 to 47 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 29 November 2004 ) ABDUL RAHMAN BIN TALIB

Before me:

Commissioner for Oaths

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

We have audited the financial statements set out on pages 14 to 47. These financial statements are the responsibility of the Company's Directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965, and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of :
  - (i) the financial position of the Company as at 30 September 2004 and of the results and cash flows of the Company for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young  
AF : 0039  
Chartered Accountants

Pushpanathan a/l S.A. Kanagarayar  
No. 1056/03/05(J/PH)  
Partner

Kuala Lumpur, Malaysia  
Date : 29 November 2004

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

BALANCE SHEET AS AT 30 SEPTEMBER 2004

ASSETS	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
Property, plant and equipment	3	15,384	15,487
Deferred taxation	4	4,225	5,507
Investments	5	481,706	505,038
Receivables	6	25,065	26,778
Cash and bank balances		4,258	3,581
<b>TOTAL ASSETS</b>		<u>530,638</u>	<u>556,391</u>
 <b>LIABILITIES</b>			
Provision for outstanding claims	7	280,775	318,458
Payables	8	8,012	8,148
Hire purchase creditors	9	903	335
Provision for taxation		855	-
<b>TOTAL LIABILITIES</b>		<u>290,545</u>	<u>326,941</u>
 Unearned premium reserves	 10	 <u>88,528</u>	 <u>90,894</u>
 <b>SHAREHOLDER'S FUNDS</b>			
Share capital	11	100,000	100,000
Reserves		51,565	38,556
		<u>151,565</u>	<u>138,556</u>
 <b>TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS</b>		 <u>530,638</u>	 <u>556,391</u>

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



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

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 SEPTEMBER 2004

	Distributable		
	<u>Share Capital</u> RM'000	<u>Accumulated Profits</u> RM'000	<u>Total</u> RM'000
At 1 October 2002	100,000	29,018	129,018
Net profit for the year	-	9,538	9,538
At 30 September 2003	100,000	38,556	138,556
Net profit for the year	-	13,009	13,009
At 30 September 2004	<u>100,000</u>	<u>51,565</u>	<u>151,565</u>

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 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
Operating revenue	12	<u>222,585</u>	<u>251,657</u>
Investment income	13	1,044	1,097
Management expenses	14	<u>(7)</u> 1,037	<u>(7)</u> 1,090
Transfer from General Insurance Revenue account		<u>17,516</u>	<u>12,169</u>
Profit before taxation		18,553	13,259
Income tax expense	16	<u>(5,544)</u>	<u>(3,721)</u>
Net profit for the year		<u>13,009</u>	<u>9,538</u>
Basic earnings per share (sen)	17	<u>13.01</u>	<u>9.54</u>

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

Company No: 12557 W

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

**GENERAL INSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2004**

	Note	FIRE		MOTOR		MARINE, AVIATION AND TRANSIT		MISCELLANEOUS		TOTAL	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium	12	3,466	3,649	170,705	181,857	1,462	1,281	27,810	46,053	203,443	232,840
Reinsurance		(1,697)	(2,066)	(11,389)	(13,353)	(922)	(805)	(19,022)	(33,602)	(33,030)	(49,826)
Net premium		1,769	1,583	159,316	168,504	540	476	8,788	12,451	170,413	183,014
(Increase) / decrease in unearned premium reserves		(52)	41	2,230	4,337	(4)	(19)	192	(5,254)	2,366	(895)
Earned premium		1,717	1,624	161,546	172,841	536	457	8,980	7,197	172,779	182,119
Net claims incurred	18	(830)	(846)	(126,668)	(151,515)	(250)	60	(2,193)	(1,564)	(129,941)	(153,865)
Net commission		40	(150)	(15,127)	(16,285)	(39)	(27)	(830)	(2,334)	(15,956)	(18,796)
Underwriting surplus before management expenses		(750)	(996)	(141,795)	(167,800)	(289)	33	(3,023)	(3,898)	(145,897)	(172,661)
		927	628	19,751	5,041	247	490	5,957	3,299	26,882	9,458
Management expenses	14									(30,734)	(28,566)
Underwriting deficit										(3,852)	(19,108)
Investment income	13									18,098	17,720
Other operating income - net	19									3,304	13,586
Profit from operations										17,550	12,198
Finance costs	20									(34)	(29)
Transfer to Income Statement										17,516	12,169

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 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		18,553	13,259
Adjustments for :			
Depreciation		1,378	1,460
Amortisation of premiums, net of accretion of discounts		270	542
Gain on disposal of property, plant and equipment		(125)	(103)
Property, plant and equipment written off		15	16
Write-back of diminution in value of investments		(3,506)	(9,518)
Permanent diminution in value of investments		1,327	2,454
Gain on disposal of investments		(815)	(6,191)
Short term accumulating compensated absences		323	-
Dividend income		(3,526)	(2,353)
Interest income		(14,305)	(15,686)
Income from Islamic corporate bonds		(1,154)	(890)
Write-back of allowance for doubtful debts		(291)	(1,472)
(Decrease)/increase in unearned premium reserves		(2,366)	895
Interest expense		28	23
Operating loss before working capital changes		(4,194)	(17,564)
Changes in working capital :			
Purchase of investments		(41,594)	(25,897)
Proceeds from disposal of investments		45,072	55,831
Increase in bankers acceptances		(35,266)	(54,202)
Decrease in deposits and placements with financial institutions		57,902	34,459
Decrease in receivables		611	835
Decrease in outstanding claims		(37,683)	(5,651)
Decrease in payables		(460)	(2,027)
Cash used in operations		(15,612)	(14,216)
Tax paid net of recoveries		(328)	(6,396)
Dividends received		2,428	1,818
Interest received		13,924	16,273
Income received from Islamic corporate bonds		890	890
Interest paid		(28)	(23)
Net cash generated from/(used in) operating activities	21	1,274	(1,654)

CASH FLOW STATEMENT (Cont'd)  
FOR THE YEAR ENDED 30 SEPTEMBER 2004

	<u>Note</u>	<u>2004</u> RM'000	<u>2003</u> RM'000
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		186	757
Purchase of property, plant and equipment	3(c)	<u>(651)</u>	<u>(229)</u>
Net cash (used in)/generated from investing activities	21	<u>(465)</u>	<u>528</u>
<b>CASH FLOW FROM FINANCING ACTIVITY</b>			
Decrease in hire purchase creditors representing net cash used in financing activity	21	<u>(132)</u>	<u>(113)</u>
Net increase/(decrease) in cash and cash equivalents		677	(1,239)
Cash and cash equivalents at beginning of year	21	<u>3,581</u>	<u>4,820</u>
Cash and cash equivalents at end of year	21	<u><u>4,258</u></u>	<u><u>3,581</u></u>
Cash and cash equivalents comprise :			
Cash and bank balances		<u><u>4,258</u></u>	<u><u>3,581</u></u>

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

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

NOTES TO THE FINANCIAL STATEMENTS - 30 SEPTEMBER 2004

1. PRINCIPAL ACTIVITY AND GENERAL INFORMATION

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

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

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

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

The average number of employees during the financial year in the Company was 435 (2003 : 423).

The financial statements were authorised for issue on 29 November 2004 pursuant to a resolution by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

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

During the financial year ended 30 September 2004, the Company adopted the following Malaysian Accounting Standards Board Standards (MASB) for the first time :

MASB 28 : Discontinuing Operations

MASB 29 : Employee Benefits

MASB 30 : Accounting and Reporting by Retirement Benefit Plans

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Basis of Accounting (Cont'd)

The adoption of MASB 28 and MASB 30 did not have any impact to the financial statements. The effects of adopting of MASB 29 are disclosed in Note 2(m).

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

(b) Impairment of Assets

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

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

(c) Property, Plant and Equipment and Depreciation

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

Freehold land is not depreciated. Leasehold land is depreciated over the term of the lease. Other property, plant and equipment are depreciated on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life.

The principal annual rates of depreciation are :

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Investments

- (i) Investment properties consist of freehold and leasehold land and buildings that are held for their investment potential and rental income. Investment properties are stated at cost less impairment losses, if any. Investment properties are not depreciated.
- (ii) Investment securities are securities that are acquired and held for yield or capital growth, and are usually held to maturity date.

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

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 revenue account.

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

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

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

(e) Receivables

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

(f) Payables

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



2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Equity

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

(h) General Insurance Underwriting Results

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

Premium Income

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

Unearned Premium Reserves

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

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

Provision for Claims

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) General Insurance Underwriting Results (Cont'd)

Acquisition Cost

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

(i) Income Recognition

(i) Interest income on loans are recognised on an accrual basis except where a loan is considered non-performing, i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

(ii) Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

(iii) Interest income from money market instruments and deposits and placements with financial institutions are recognised on an accrual basis.

(iv) Dividend income is recognised when the right to receive payment is established.

(v) Income from Islamic corporate bonds is recognised on an accrual basis.

(j) Currency Conversion and Translation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Income Tax

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

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

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates as enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(l) Hire Purchase and Leases

Property, plant and equipment acquired under hire purchase and finance lease agreements are capitalised in the financial statements and are depreciated in accordance with the policy set out in (c) above. The corresponding outstanding obligations due under the hire purchase and finance lease agreements after deducting finance expenses are included as liabilities in the financial statements. Finance expenses are charged to the income statements over the period of the respective agreements.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

Prior to the adoption of MASB 29 : Employee Benefits on 1 October 2003, no liability was recognised for the obligations in respect of short-term employee benefits in the form of accumulating compensated absences. This change in accounting policy has not been accounted for retrospectively and accordingly, comparatives have not been restated, as the effects relating to periods prior to the financial year ended 30 September 2004 cannot be reasonably determined. For the same reason, pro forma comparative information has not been presented. The effect on the financial statements of the above change in accounting policy is an increase in employee benefits payable for the year and a corresponding decrease in current year profits of the Company of RM323,000.

(n) Cash and Cash Equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Financial Instruments

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

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

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance contracts are not provided as they do not fall within the scope of MASB 24 : Financial Instruments - Disclosure and Presentation.

Company No: 12557 W

3. PROPERTY, PLANT AND EQUIPMENT

	Land		Buildings		Computer equipment	Motor vehicles	Office equipment	Furniture, fixtures and fittings	Total
	Freehold	Leasehold	Freehold	Leasehold					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Cost:</b>									
At beginning of year	380	350	278	12,972	12,597	1,329	1,415	2,805	32,126
Additions	-	28	-	-	235	980	40	68	1,351
Disposals	-	-	-	-	(67)	(572)	(12)	-	(651)
Write offs	-	-	-	-	(701)	-	(6)	-	(707)
At end of year	380	378	278	12,972	12,064	1,737	1,437	2,873	32,119
<b>Accumulated Depreciation:</b>									
At beginning of year	-	23	21	2,744	9,797	810	1,086	2,158	16,639
Charge for the year	-	4	6	302	668	200	69	129	1,378
Disposals	-	-	-	-	(38)	(540)	(12)	-	(590)
Write offs	-	-	-	-	(687)	-	(5)	-	(692)
At end of year	-	27	27	3,046	9,740	470	1,138	2,287	16,733
<b>Net Book Value:</b>									
At end of year	380	351	251	9,926	2,324	1,267	299	586	15,384
At beginning of year	380	327	257	10,228	2,800	519	329	647	15,487
<b>Details at 1 October 2002:</b>									
Cost	380	350	278	12,972	13,904	1,363	1,360	2,710	33,317
Accumulated depreciation	-	19	16	2,442	9,678	979	1,024	2,011	16,169
<b>Depreciation charge for the year ended 30 September 2003</b>									
	-	4	5	302	765	162	69	153	1,460

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

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
Computer equipment	5,363	5,111
Motor vehicles	39	507
Office equipment	721	690
Furniture, fixtures and fittings	1,558	1,233
	<u>7,681</u>	<u>7,541</u>

- (b) The net book value of motor vehicles held under hire purchase arrangements is RM1,223,000 (2003 : RM 467,000).

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
Cash	651	229
Hire purchase	700	240
	<u>1,351</u>	<u>469</u>

4. DEFERRED TAXATION

	<u>2004</u> RM'000	<u>2003</u> RM'000
At beginning of year	5,507	9,248
Transfer from income statement (Note 16)	(1,282)	(3,741)
At end of year	<u>4,225</u>	<u>5,507</u>

Presented after appropriate offsetting as follows :

Deferred tax assets	4,963	6,371
Deferred tax liabilities	(738)	(864)
	<u>4,225</u>	<u>5,507</u>

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

4. DEFERRED TAXATION (Cont'd)

Deferred Tax Assets of the Company :

	Unearned Premium Reserve RM'000	Allowance for Diminution in Value of Investments RM'000	Tax Losses and Unabsorbed Capital Allowances RM'000	Total RM'000
<u>2004</u>				
At beginning of year	13	5,564	794	6,371
Recognised in the income statement	(3)	(611)	(794)	(1,408)
At end of year	10	4,953	-	4,963
<u>2003</u>				
At beginning of year	10	3,926	6,530	10,466
Reclassification	-	3,615	(3,615)	-
Recognised in the income statement	3	(1,977)	(2,121)	(4,095)
At end of year	13	5,564	794	6,371

Deferred Tax Liabilities of the Company :

	Accelerated Capital Allowances RM'000	Total RM'000
<u>2004</u>		
At beginning of year	(864)	(864)
Recognised in the income statement	126	126
At end of year	(738)	(738)
<u>2003</u>		
At beginning of year	(1,218)	(1,218)
Recognised in the income statement	354	354
At end of year	(864)	(864)



5. INVESTMENTS

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Cost :</u>		
<u>Investment properties</u>		
Freehold buildings	706	706
Leasehold land and building	730	730
	<u>1,436</u>	<u>1,436</u>
<u>Investment securities</u>		
Money market instruments :		
Malaysian Government Securities	19,592	5,088
Amortisation of premiums	(48)	(52)
	<u>19,544</u>	<u>5,036</u>
Cagamas bonds	35,171	70,761
Amortisation of premiums, net of accretion of discounts	(140)	(564)
	<u>35,031</u>	<u>70,197</u>
Islamic corporate bonds	20,530	10,394
Amortisation of premiums	(171)	(111)
	<u>20,359</u>	<u>10,283</u>
Bankers acceptances	<u>89,468</u>	<u>54,202</u>
Quoted securities :		
Shares in Malaysia	63,237	68,821
Allowance for diminution in value	-	(3,858)
	<u>63,237</u>	<u>64,963</u>
Warrants in Malaysia	2,127	1,756
Allowance for diminution in value	(999)	(647)
	<u>1,128</u>	<u>1,109</u>
Irredeemable convertible unsecured loan stock	<u>9,453</u>	<u>-</u>
Unit trusts	<u>1,057</u>	<u>1,000</u>

5. INVESTMENTS (Cont'd)

	<u>2004</u> RM'000	<u>2003</u> RM'000
Unquoted securities :		
Shares in Malaysia	-	391
Corporate bonds	9,959	7,433
Amortisation of premiums, net of accretion of discounts	(110)	(58)
	<u>9,849</u>	<u>7,375</u>
Total investment securities	<u>249,126</u>	<u>214,556</u>
<u>Deposits and placements with financial institutions</u>		
Licensed banks	165,090	180,381
Licensed finance companies	64,024	108,665
Other licensed financial institutions	2,030	-
	<u>231,144</u>	<u>289,046</u>
Total investments	<u><u>481,706</u></u>	<u><u>505,038</u></u>
<u>Market value :</u>		
Malaysian Government Securities	20,015	5,507
Cagamas bonds	36,068	71,717
Islamic corporate bonds	20,916	10,532
Shares quoted in Malaysia	63,423	64,963
Warrants quoted in Malaysia	1,128	1,109
Irredeemable convertible unsecured loan stock	10,776	-
Unit trusts	1,353	1,298
Unquoted corporate bonds	<u>9,832</u>	<u>7,385</u>

The title deed of the leasehold land and building under the investment properties has not been received from the authorities as at the date of this report. The total indicative market value of the investment properties by a firm of professional valuers during the financial year was RM1,023,000 (2003 : RM1,013,000). No allowance for impairment loss has been made as the rental yields from these properties are supportive of the carrying value of the investment.

Deposits and placements amounting to RM448,000 (2003 : RM815,000) represent deposits given by the insureds as collateral for bond guarantees granted to third parties.

5. INVESTMENTS (Cont'd)

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

	Contractual repricing or maturity date (whichever is earlier)		Total Carrying amount RM'000	Range of Effective Interest rates per annum %
	Less than 1 year RM'000	1 to 5 years RM'000		
<u>2004</u>				
Malaysian Government Securities	-	19,544	19,544	4.31-6.51
Cagamas bonds	35,031	-	35,031	5.18
Bankers acceptances	89,468	-	89,468	2.78-2.89
Irredeemable convertible unsecured loan stock	-	9,453	9,453	5.00
Unquoted corporate bonds	-	9,849	9,849	6.40-6.42
Deposits and placements with financial institutions	231,144	-	231,144	1.00-3.70
	<u>355,643</u>	<u>38,846</u>	<u>394,489</u>	
<u>2003</u>				
Malaysian Government Securities	-	5,036	5,036	6.51
Cagamas bonds	35,130	35,067	70,197	3.53-5.18
Bankers acceptances	54,202	-	54,202	2.88-2.92
Unquoted corporate bonds	-	7,375	7,375	4.00-6.40
Deposits and placements with financial institutions	289,046	-	289,046	1.00-4.00
	<u>378,378</u>	<u>47,478</u>	<u>425,856</u>	

The effective profit rate of the Islamic corporate bonds as at the balance sheet date was between 6.30% and 8.15% (2003 : 8.15%) per annum.

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
1 to 5 years	15,290	10,283
More than 5 years	5,069	-
	<u>20,359</u>	<u>10,283</u>

6. RECEIVABLES

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Trade receivables :</u>		
Outstanding premiums including agents', brokers' and co-insurers' balances	8,249	8,648
Due from reinsurers and ceding companies	<u>6,055</u>	<u>6,014</u>
	14,304	14,662
Allowance for doubtful debts	<u>(2,473)</u>	<u>(2,880)</u>
	<u>11,831</u>	<u>11,782</u>
<u>Other receivables :</u>		
Accrued income	4,409	3,489
Share of assets held by Malaysian Motor Insurance Pool (MMIP)	2,751	2,888
Deposits and prepayments	406	467
Tax recoverable	5,033	7,343
Due from fellow subsidiary companies*	-	121
Others	<u>635</u>	<u>688</u>
	<u>13,234</u>	<u>14,996</u>
	<u>25,065</u>	<u>26,778</u>

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

7. PROVISION FOR OUTSTANDING CLAIMS

	<u>2004</u> RM'000	<u>2003</u> RM'000
Provision for outstanding claims	311,878	355,237
Recoverable from reinsurers	<u>(31,103)</u>	<u>(36,779)</u>
Net outstanding claims	<u>280,775</u>	<u>318,458</u>

Included in the provision for outstanding claims is an amount of RM106,719,000 (2003 : RM121,739,000) in respect of net provision for Incurred But Not Reported (IBNR) claims as determined by an independent professional actuary.

8. PAYABLES

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Trade payables :</u>		
Due to reinsurers and ceding companies	3,670	3,724
Due to agents, brokers, co-insurers and insureds	1,038	894
	<u>4,708</u>	<u>4,618</u>
<u>Other payables :</u>		
Due to :		
- holding company*	42	31
- fellow subsidiary companies*	51	-
Accruals	471	420
Collateral deposits	477	849
Insurance Guarantee Scheme Fund (IGSF) levy	570	522
Refund premiums	191	511
Services tax payable	162	166
Short term accumulating compensated absences	323	-
Stamp duty payable	556	459
Unclaimed monies	234	273
Others	227	299
	<u>3,304</u>	<u>3,530</u>
	<u>8,012</u>	<u>8,148</u>

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

9. HIRE PURCHASE CREDITORS

	<u>2004</u> RM'000	<u>2003</u> RM'000
Future minimum payments are as follows :		
Payable within one year	274	143
Payable within one and five years	776	260
	<u>1,050</u>	<u>403</u>
Finance charges	(147)	(68)
	<u>903</u>	<u>335</u>
Representing hire purchase creditors :		
Due within one year	217	119
Due after one year	686	216
	<u>903</u>	<u>335</u>

The hire purchase arrangements at the balance sheet date bore interest between 4.76% and 7.18% (2003 : 4.00% and 7.93%) per annum.

10. UNEARNED PREMIUM RESERVES

	<u>Fire</u> RM'000	<u>Motor</u> RM'000	<u>Marine, Aviation And Transit</u> RM'000	<u>Miscellaneous</u> RM'000	<u>Total</u> RM'000
<u>2004</u>					
At beginning of year	872	76,223	167	13,632	90,894
Increase / (decrease) in unearned premium reserves	52	(2,230)	4	(192)	(2,366)
At end of year	<u>924</u>	<u>73,993</u>	<u>171</u>	<u>13,440</u>	<u>88,528</u>
<u>2003</u>					
At beginning of year	913	80,560	148	8,378	89,999
(Decrease) / Increase in unearned premium reserves	(41)	(4,337)	19	5,254	895
At end of year	<u>872</u>	<u>76,223</u>	<u>167</u>	<u>13,632</u>	<u>90,894</u>

11. SHARE CAPITAL

	Number of shares		Amount	
	<u>2004</u> '000	<u>2003</u> '000	<u>2004</u> RM'000	<u>2003</u> RM'000
Authorised shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid ordinary shares of RM1.00 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

12. OPERATING REVENUE

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Insurance fund</u>		
Gross premium	203,443	232,840
Investment income (Note 13)	18,098	17,720
	<u>221,541</u>	<u>250,560</u>
<u>Shareholder's fund</u>		
Investment income (Note 13)	1,044	1,097
	<u>222,585</u>	<u>251,657</u>

13. INVESTMENT INCOME

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Insurance fund</u>		
Gross dividends :		
- shares quoted in Malaysia	3,459	2,353
- unit trusts	67	-
Interest income :		
- Malaysian Government Securities	471	998
- Cagamas bonds	2,908	3,865
- bankers acceptances	2,094	737
- corporate bonds	668	427
- deposits and placements with financial institutions	7,120	8,562
Income from Islamic corporate bonds	1,154	890
Rental of properties :		
- third parties	50	45
- fellow subsidiary companies	5	5
- holding company	264	264
MMIP investment income	108	116
Amortisation of premiums, net of accretion of discounts	(270)	(542)
	<u>18,098</u>	<u>17,720</u>
<u>Shareholder's fund</u>		
Interest income :		
- bankers acceptances	903	33
- deposits and placements with financial institutions	141	1,064
	<u>1,044</u>	<u>1,097</u>

14. MANAGEMENT EXPENSES

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Insurance fund</u>		
Executive Directors' remuneration (Note 15)	815	740
Staff salaries and bonus	11,295	10,762
Staff short term accumulating compensated absences	298	-
Pension costs – defined contribution plans	1,349	1,283
Other staff benefits	1,260	1,226
	<u>15,017</u>	<u>14,011</u>
Depreciation	1,378	1,460
Auditors' remuneration	85	85
Non-Executive Directors' remuneration (Note 15)	118	175
Write-back of allowance for bad and doubtful debts	(291)	(1,482)
Bad debts recovered	(21)	-
Rental of properties :		
- third parties	315	265
- holding company	-	9
- fellow subsidiary company	103	77
IGSF levy	570	522
Management fees to holding company	672	680
Call centre service charges to fellow subsidiary company	552	552
Rental of equipment :		
- third party	130	99
- fellow subsidiary company	1,135	1,002
Printing and EDP expenses	3,862	3,955
Business development	1,451	1,570
Bank charges	1,561	1,405
Office administration and utilities	1,814	1,527
Other expenses	2,283	2,654
	<u>30,734</u>	<u>28,566</u>
<u>Shareholder's fund</u>		
Staff salaries and bonus	5	5
Pension costs – defined contribution plans	1	1
	<u>6</u>	<u>6</u>
Other expenses	1	1
	<u>7</u>	<u>7</u>



15. DIRECTORS' REMUNERATION

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Insurance fund</u>		
Executive Directors :		
- Salaries	573	532
- Bonuses	78	75
- Pension costs – defined contribution plans	85	79
- Benefits-in-kind	30	21
- Short term accumulating compensated absences	25	-
- Allowances	54	54
	<u>845</u>	<u>761</u>
Non-Executive Directors :		
- Fees	118	175
Total Directors' remuneration	<u>963</u>	<u>936</u>
Total Executive Directors' Remuneration excluding Benefits-in-kind	<u>815</u>	<u>740</u>

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM437,000 (2003 : RM412,000)

16. INCOME TAX EXPENSE

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Income tax :</u>		
Current year's provision	4,264	-
Tax recoveries	(2)	(20)
	<u>4,262</u>	<u>(20)</u>
<u>Deferred tax (Note 4) :</u>		
Transfer to deferred taxation	994	3,741
Under provision in prior years	288	-
	<u>1,282</u>	<u>3,741</u>
	<u>5,544</u>	<u>3,721</u>

16. INCOME TAX EXPENSE (Cont'd)

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

	<u>2004</u> RM'000	<u>2003</u> RM'000
Profit before taxation	18,553	13,259
Taxation at Malaysian statutory tax rate of 28% (2003 : 28%)	5,195	3,712
Tax recoveries	(2)	(20)
Under provision of deferred tax in prior years	288	-
Income not subject to tax	(331)	(359)
Expenses not deductible for tax purposes	394	388
Tax expense for the year	<u>5,544</u>	<u>3,721</u>

Tax savings arising during the financial year as a result of the utilisation of unabsorbed tax losses and unutilised capital allowances brought forward from prior years amounts to approximately RM1,786,000 (2003 : RM7,086,000) and RM Nil (2003 : RM487,000) respectively.

As at 30 September 2004, the Company has :

- tax exempt account balance of approximately RM67,438,000 (2003: RM67,405,000), 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.

17. BASIC EARNINGS PER SHARE (SEN)

The basic earnings per ordinary share of the Company is calculated by dividing the net profit of RM13,009,000 (2003 : RM9,538,000) on 100,000,000 ordinary shares.

18. NET CLAIMS INCURRED

	<u>Fire</u>	<u>Motor</u>	<u>Marine, Aviation And Transit</u>	<u>Miscellaneous</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2004</u>					
Gross claims paid less salvage	1,371	180,622	707	2,773	185,473
Reinsurances recoveries	(437)	(16,100)	(404)	(908)	(17,849)
Net claims paid (a)	934	164,522	303	1,865	167,624
Net outstanding claims :					
At end of year (b) (Note 7)	1,035	274,465	598	4,677	280,775
At beginning of year (c)	(1,139)	(312,319)	(651)	(4,349)	(318,458)
Net claims incurred (a+b-c)	830	126,668	250	2,193	129,941
<u>2003</u>					
Gross claims paid less salvage	774	175,958	633	2,834	180,199
Reinsurances recoveries	(230)	(19,038)	(419)	(996)	(20,683)
Net claims paid (a)	544	156,920	214	1,838	159,516
Net outstanding claims :					
At end of year (b) (Note 7)	1,139	312,319	651	4,349	318,458
At beginning of year (c)	(837)	(317,724)	(925)	(4,623)	(324,109)
Net claims incurred (a+b-c)	846	151,515	(60)	1,564	153,865

19. OTHER OPERATING INCOME - NET

	<u>2004</u>	<u>2003</u>
	RM'000	RM'000
<u>Insurance fund</u>		
Gain on disposal of :		
- investments	815	6,191
- property, plant and equipment	125	103
Realised (loss)/gain on foreign exchange	(4)	7
Sundry income	207	245
Write-back of diminution in value of investments	3,506	9,518
Permanent diminution in value of investments	(1,327)	(2,454)
Property, plant and equipment written off	(15)	(16)
Others	(3)	(8)
	<u>3,304</u>	<u>13,586</u>

20. FINANCE COSTS

	<u>2004</u> RM'000	<u>2003</u> RM'000
<u>Insurance fund</u>		
Hire-purchase interest	28	22
Others	<u>6</u>	<u>7</u>
	<u>34</u>	<u>29</u>

21. SEGMENT INFORMATION ON CASH FLOW

	<u>Insurance fund</u>		<u>Shareholder's funds</u>		<u>Total</u>	
	<u>2004</u> RM'000	<u>2003</u> RM'000	<u>2004</u> RM'000	<u>2003</u> RM'000	<u>2004</u> RM'000	<u>2003</u> RM'000
Cash flow from :						
Operating activities	1,276	(1,674)	(2)	20	1,274	(1,654)
Investing activities	(465)	528	-	-	(465)	528
Financing activity	<u>(132)</u>	<u>(113)</u>	<u>-</u>	<u>-</u>	<u>(132)</u>	<u>(113)</u>
	<u>679</u>	<u>(1,259)</u>	<u>(2)</u>	<u>20</u>	<u>677</u>	<u>(1,239)</u>
Net increase / (decrease) in cash and cash equivalents	679	(1,259)	(2)	20	677	(1,239)
Cash and cash equivalents :						
At beginning of year	<u>3,555</u>	<u>4,814</u>	<u>26</u>	<u>6</u>	<u>3,581</u>	<u>4,820</u>
At end of year	<u>4,235</u>	<u>3,555</u>	<u>24</u>	<u>26</u>	<u>4,258</u>	<u>3,581</u>

22. COMMITMENTS AND CONTINGENCIES

(a) Non-cancellable operating lease commitments

	<u>2004</u> RM'000	<u>2003</u> RM'000
Future minimum lease payments are as follows :		
Not later than one year	655	871
Later than one year and not later than five years	<u>341</u>	<u>666</u>
	<u>996</u>	<u>1,537</u>

These represent rental commitments of computer and office equipment.

(b) Other commitments and contingencies

The Company may be required to contribute up to a maximum amount of RM503,000 (2003 : RM570,000) in the following financial year to the Insurance Guarantee Scheme Fund.

23. SIGNIFICANT RELATED PARTY DISCLOSURES

	<u>2004</u> RM'000	<u>2003</u> RM'000
(i) Transactions with related companies :		
Disposal of property, plant and equipment to fellow subsidiary company :		
- P & O Global Technologies Sdn Bhd	(30)	(653)
Rental income received from holding company :		
- Pacific & Orient Bhd	(264)	(264)
Purchase of property, plant and equipment from fellow subsidiary companies :		
- P & O Global Technologies Sdn Bhd	236	7
Management fees paid to holding company :		
- Pacific & Orient Bhd	672	680
Office rental paid to fellow subsidiary company :		
- P & O Global Technologies Sdn Bhd	103	77
Information technology service fees paid to fellow subsidiary company :		
- P & O Global Technologies Sdn Bhd	2,458	2,430
Call centre service charges paid to fellow subsidiary company :		
- P & O Global Technologies Sdn Bhd	552	552
Leasing of office equipment paid to fellow subsidiary company :		
- P & O Global Technologies Sdn Bhd	799	666
Rental of equipment paid to fellow subsidiary company :		
- P & O Global Technologies Sdn Bhd	336	336
Purchase of shares quoted in Malaysia from fellow subsidiary company :		
- P & O Capital Sdn Bhd	250	-
(ii) Transactions with other related parties :		
Insurance revenue from a group of companies in Which a Director, Mr Chan Thye Seng is deemed interested :		
- Ancom Berhad Group of companies	<u>892</u>	<u>894</u>

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

24. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

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

(b) Underwriting Risk

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

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

(c) Credit Risk

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

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

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

24. FINANCIAL INSTRUMENTS (Cont'd)

(c) Credit Risk (Cont'd)

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

	<u>2004</u>	<u>2003</u>
	RM'000	RM'000
Rating of corporate bonds on market value basis :		
AAA	-	2,179
AA 3	10,326	-
A 3	4,700	-
A	15,722	15,738
	<u>30,748</u>	<u>17,917</u>

Analysis of corporate bonds by industry segments :

Properties	10,590	10,532
Power	10,326	-
Trading/services	4,700	-
Plantation	5,132	5,206
Others	-	2,179
	<u>30,748</u>	<u>17,917</u>

(d) Interest Rate Risk

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

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

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

(e) Market Risk

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

24. FINANCIAL INSTRUMENTS (Cont'd)

(f) Liquidity Risk

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

(g) Derivatives

As at 30 September 2004, the Company did not transact in any derivative instruments for hedging purposes.

(h) Fair Values

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

	<u>2004</u>		<u>2003</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>amount</u>	<u>Value</u>	<u>amount</u>	<u>Value</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>Financial Assets</u>				
Malaysian Government Securities	19,544	20,015	5,036	5,507
Cagamas bonds	35,031	36,068	70,197	71,717
Islamic corporate bonds	20,359	20,916	10,283	10,532
Quoted shares	63,237	63,423	64,963	64,963
Irredeemable convertible unsecured loan stock	9,453	10,776	-	-
Unit trusts	1,057	1,353	1,000	1,298
Unquoted corporate bonds	9,849	9,832	7,375	7,385
Unquoted shares	-	-	391	*
Due from fellow subsidiary companies	-	-	121	**
<u>Financial liabilities</u>				
Hire purchase creditors	903	915	335	293
Due to holding company	42	**	31	**
Due to fellow subsidiary companies	51	**	-	-



24. FINANCIAL INSTRUMENTS (Cont'd)

(h) Fair Values (Cont'd)

\*It is not practical to estimate the fair value of the Company's unquoted shares because of the lack of quoted market prices and inability to estimate fair values without incurring excessive costs.

\*\*It is not practical to estimate the fair value of amounts due from/to fellow subsidiary companies and holding company mainly due to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs.

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

(i) Cash and cash equivalents, bankers acceptances and other receivables/payables

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

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

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

(iii) Investment Securities

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

(iv) Unit Trust

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

(v) Hire Purchase Creditors

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