P&O

# PACIFIC & ORIENT BERHAD

(308366-H)

# annual report 2007

# CONTENTS

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Fourteenth Annual General Meeting of the Company will be held at the Anggerik Room, Hotel Equatorial Kuala Lumpur, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 5 March 2008 at 10.30 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements for the year ended 30 September 2007 and the Reports of the Directors and the Auditors thereon. **Resolution 1**

2. To re-elect a Director:

   Y.Bhg. Dato' Abu Hanifah Bin Noordin retires by rotation pursuant to Article 82 of the Company's Articles of Association, and being eligible, offers himself for re-election. **Resolution 2**

3. To consider and if thought fit, to pass the following resolutions pursuant to Section 129(6) of the Companies Act, 1965:

   (a) "THAT Mr Chan Hua Eng who retires pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the conclusion of the next Annual General Meeting of the Company." **Resolution 3**

   (b) "THAT Mr Michael Yee Kim Shing who retires pursuant to Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the conclusion of the next Annual General Meeting of the Company." **Resolution 4**

4. To re-appoint Messrs Ernst & Young as Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 5**

**As Special Business**

To consider and if thought fit, with or without any modification, to pass the following which will be proposed as Special Resolution and Ordinary Resolutions respectively:

**Special Resolution:**

5. Proposed Amendments to the Articles of Association of the Company

   "THAT the additions, alterations, modifications and variations to the Articles of Association of the Company in the manner as set out in Appendix I attached to the Company's 2007 Annual Report be and are hereby approved and adopted." **Resolution 6**

**Ordinary Resolutions:**

6. Authority under Section 132D of the Companies Act, 1965, to issue shares

   "THAT subject to Section 132D of the Companies Act, 1965 and the approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this Resolution in any one financial year does not exceed ten per cent (10%) of the issued and paid-up share capital of the Company for the time being AND THAT such authority shall commence immediately upon the passing of this Resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 7**

# NOTICE OF ANNUAL GENERAL MEETING

7. Proposed Renewal of Authority for the Purchase by the Company of its Own Shares

   "THAT subject to the Companies Act, 1965 ("the Act"), rules, regulations and orders made pursuant to the Act, and the requirements of Bursa Malaysia Securities Berhad ("BMSB") and any other relevant authorities, the Directors of the Company be and are hereby unconditionally and generally authorised to: **Resolution 8**

   (i) purchase shares in the Company, at any time and upon such terms and conditions and for such purposes as the Directors may, in their discretion deem fit, provided that the aggregate number of shares bought pursuant to this Resolution does not exceed ten per cent (10%) of the issued and paid-up share capital of the Company for the time being and the total funds allocated shall not exceed the total retained earnings and share premium of the Company (re: page 2 item 5 of the Share Buy-back Statement dated 25 January 2008) which would otherwise be available for dividends AND THAT such authority shall commence immediately upon the passing of this Resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company (unless earlier revoked or varied by ordinary resolution of the shareholders of the Company in general meeting or upon the expiration of the period within which the next Annual General Meeting is required by law to be held, whichever occurs first);

   (ii) retain the shares so purchased as treasury shares or cancel them or both, with an appropriate announcement to be made to BMSB in respect of the intention of the Directors whether to retain the shares so purchased as treasury shares or cancel them or both together with the rationale of the decision so made;

   (iii) deal with the shares purchased in the manner prescribed by the Act, rules, regulations and orders made pursuant to the Act and the requirements of BMSB and any other relevant authorities for the time being in force; and

   (iv) take all such steps as are necessary or expedient to implement or to effect the purchase of the shares."

8. To transact any other business which may properly be transacted at an Annual General Meeting, of which due notice shall have been given.

By Order of the Board

**VALERIE CHEAH CHUI MEI** (LS 0004944)
**WONG LAY SEE** (MAICSA 7018684)
Company Secretaries

Kuala Lumpur
25 January 2008

# NOTICE OF ANNUAL GENERAL MEETING

**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint one (1) proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.

2. The instrument appointing a proxy must be deposited at the registered office of the Company situated at 11th Floor, Wisma Bumi Raya, No. 10 Jalan Raja Laut, 50350 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for the meeting.

3. In the case of a corporate member, the instrument appointing a proxy must be executed under its common seal or under the hand of its attorney.

**EXPLANATORY NOTES ON SPECIAL BUSINESS**

1. **Resolution 6 - Proposed Amendments to the Articles of Association of the Company**

   The Proposed Amendments to the Articles of Association of the Company, if passed, will render the Articles of Association of the Company to be consistent with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad.

2. **Resolution 7 - Authority under Section 132D of the Companies Act, 1965, to issue shares**

   The effect of the resolution under item 6 of the agenda, if passed, will give authority to the Directors of the Company, from the date of the above Annual General Meeting, to issue and allot shares in the Company up to and not exceeding in total ten per cent (10%) of the issued and paid-up share capital of the Company for the time being, for such purposes as they consider would be in the interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

3. **Resolution 8 - Proposed Renewal of Authority for the Purchase by the Company of its Own Shares**

   This resolution will empower the Directors of the Company to purchase the Company's shares up to ten per cent (10%) of the issued and paid-up share capital of the Company by utilising the funds allocated which shall not exceed the total retained earnings and share premium of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

   For further information, please refer to the Share Buy-back Statement dated 25 January 2008 which is despatched together with the Company's 2007 Annual Report.

**STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING**

Details of the Directors who are standing for re-election at this Annual General Meeting, as required under Appendix 8A of the Listing Requirements of Bursa Malaysia Securities Berhad, can be found on pages 10 and 11 - Profile of the Board of Directors in this Annual Report.

# APPENDIX I

## PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Company are proposed to be amended in the following manner to be in compliance with the recent amendments to the Listing Requirements of Bursa Malaysia Securities Berhad:

| Article No. | Existing Articles | Amended Articles |
|---|---|---|
| Article 2 Interpretation | ~~"Approved Market Place" means A stock exchange specified to be an approved market place in the Securities Industry (Central Depositories) (Exemption) (No. 2) Order 1998.~~ | That the existing definition of "Approved Market Place" be deleted in its entirety. |
| Article 2 Interpretation | "Central Depository" means ~~Malaysian Central Depository Sdn. Bhd.~~ | That the existing definition of "Central Depository" be amended to read as follows:<br><br>"Central Depository" means **Bursa Malaysia Depository Sdn. Bhd.** |
| Article 2 Interpretation | "Depositor" means A holder of a Securities Account. | That the existing definition of "Depositor" be amended to read as follows:<br><br>"Depositor" means A holder of a Securities Account **established by the Central Depository.** |
| Article 2 Interpretation | "Exchange" means ~~The Kuala Lumpur Stock Exchange.~~ | That the existing definition of "Exchange" be amended to read as follows:<br><br>"Exchange" means **Bursa Malaysia Securities Berhad.** |
| Article 7 Rights of preference shareholders | Subject to the Act, any preference shares may, with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed ~~but the total nominal value of the issued preference shares shall not exceed the total nominal value of the issued ordinary shares at any time~~ and the Company shall not issue preference shares ranking in priority above preference shares already issued, but may issue preference shares ranking equally therewith. Preference shareholders shall have the same rights as ordinary shareholders as regard receiving notices, reports and balance sheets, and attending general meetings of the Company. Preference shareholders shall also have the right to vote in any of the following circumstances: | That the existing Article 7 be amended to read as follows:<br><br>Subject to the Act, any preference shares may, with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed and the Company shall not issue preference shares ranking in priority above preference shares already issued, but may issue preference shares ranking equally therewith. Preference shareholders shall have the same rights as ordinary shareholders as regards receiving notices, reports and balance sheets, and attending general meetings of the Company. Preference shareholders shall also have the right to vote in any of the following circumstances: |

# APPENDIX I

| Article No. | Existing Articles | Amended Articles |
|---|---|---|
| | (a) when the dividend on the preference shares is in arrears for more than six (6) months;<br>(b) on a proposal to reduce the Company's share capital;<br>(c) on a proposal for the disposal of the Company's property, business and undertaking;<br>(d) on a proposal that affects rights attached to the preference share;<br>(e) on a proposal to wind up the Company;<br>(f) during the winding up of the Company.<br>~~Preference shareholders shall be entitled to a return of capital in preference to holders of ordinary share when the Company is wound up.~~ | (a) when the dividend on the preference shares is in arrears for more than six (6) months;<br>(b) on a proposal to reduce the Company's share capital;<br>(c) on a proposal for the disposal of the Company's property, business and undertaking;<br>(d) on a proposal that affects rights attached to the preference share;<br>(e) on a proposal to wind up the Company;<br>(f) during the winding up of the Company. |
| Article 33 Transmission of Securities | Transmission of Securities ~~from Foreign Register~~<br>(1) Where –<br>(a) the Securities of the Company are listed on ~~an Approved Market Place~~; and<br>(b) the Company is exempted from compliance with section 14 of the Central Depositories Act or section 29 of the Securities Industry (Central Depositories) Amendment Act 1998, as the case may be, under the Rules in respect of such Securities,<br>the Company shall, upon the request of a Securities holder, permit a transmission of Securities held by such Securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the ~~Approved Market Place (hereinafter referred to as "the Foreign Register"),~~ to the register of holders maintained by the registrar of the Company in Malaysia ~~(hereinafter referred to as "the Malaysian Register")~~ provided that | That the existing Article 33 be amended to read as follows:<br>Transmission of Securities<br>Where –<br>(a) the Securities of the Company are listed on **another stock exchange**; and<br>(b) the Company is exempted from compliance with section 14 of the Central Depositories Act or section 29 of the Securities Industry (Central Depositories) (Amendment) Act 1998, as the case may be, under the Rules in respect of such Securities,<br>the Company shall, upon the request of a Securities holder, permit a transmission of Securities held by such Securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the **other stock exchange**, to the register of holders maintained by the registrar of the Company in Malaysia **and vice versa** provided that there shall be no change in the ownership of such Securities. |

# APPENDIX I

| Article No. | Existing Articles | Amended Articles |
|---|---|---|
| | there shall be no change in the ownership of such Securities.<br><br>(2) ~~The Company shall not allow any transmission of Securities from the Malaysian Register to the Foreign Register.~~ | |
| Article 59<br>Notice of Meeting | Subject to the provisions of the Act, the notices convening meetings shall specify the place, the day and the hour of the meeting and shall be given to all members at least fourteen (14) days before the meeting and at least twenty-one (21) days before the meeting where any special resolution is to be proposed or where it is an annual general meeting. Any notice of a meeting called to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business. At least fourteen (14) days' notice or twenty-one (21) days' notice in the case where any special resolution is proposed or where it is the annual general meeting, of every such meeting shall be given by advertisement in ~~the daily press~~ and in writing to each stock exchange, upon which the Company is listed. | That the existing Article 59 be amended to read as follows:<br><br>Subject to the provisions of the Act, the notices convening meetings shall specify the place, the day and the hour of the meeting and shall be given to all members at least fourteen (14) days before the meeting and at least twenty-one (21) days before the meeting where any special resolution is to be proposed or where it is an annual general meeting. Any notice of a meeting called to consider special business shall be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business. At least fourteen (14) days' notice or twenty-one (21) days' notice in the case where any special resolution is proposed or where it is the annual general meeting, of every such meeting shall be given by advertisement in **at least one (1) nationally circulated Bahasa Malaysia or English daily newspaper** and in writing to each stock exchange, upon which the Company is listed. |
| Article 60(2)<br>Record of Depositors | The Company shall request the Central Depository in accordance with the Rules, to issue a Record of Depositors as at ~~a date~~ not less than 3 Market Days before the general meeting (hereinafter referred to as the "General Meeting Record of Depositors"). | That the existing Article 60(2) be amended to read as follows:<br><br>The Company shall request the Central Depository in accordance with the Rules, to issue a Record of Depositors as at **the latest date which is reasonably practicable which shall in any event be** not less than 3 Market Days before the general meeting (hereinafter referred to as the "General Meeting Record of Depositors"). |

# APPENDIX I

| Article No. | Existing Articles | Amended Articles |
| --- | --- | --- |
| Article 93 When offices of Director deemed vacant | | That the existing Articles 93(a) and (d) be amended to read as follows: |
| | (a) becomes bankrupt or has a Receiving Order in Bankruptcy made against him or makes any arrangement or composition with his creditors generally; | (a) becomes bankrupt or has a Receiving Order in Bankruptcy made against him or makes any arrangement or composition with his creditors generally **during his term of office**; |
| | (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder; | (d) becomes of unsound mind **during his term of office** or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder; |

# CORPORATE INFORMATION

| | |
|---|---|
| **BOARD OF DIRECTORS** | Mr Chan Hua Eng<br>Non-Executive Chairman<br><br>Mr Chan Thye Seng<br>Managing Director and Chief Executive Officer<br><br>Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed<br>Independent Non-Executive Director<br><br>Y.Bhg. Dato' Abu Hanifah Bin Noordin<br>Independent Non-Executive Director<br><br>Mr Michael Yee Kim Shing<br>Independent Non-Executive Director |
| **SECRETARIES** | Ms Valerie Cheah Chui Mei (LS 0004944)<br>Ms Wong Lay See (MAICSA 7018684) |
| **REGISTRARS** | Mega Corporate Services Sdn Bhd<br>Level 15-2, Faber Imperial Court<br>Jalan Sultan Ismail<br>50250 Kuala Lumpur<br>Malaysia<br>Tel : 03-26924271<br>Fax : 03-27325388 |
| **AUDITORS** | Ernst & Young<br>Chartered Accountants<br>Level 23A, Menara Milenium<br>Jalan Damanlela<br>Pusat Bandar Damansara<br>Damansara Heights<br>50490 Kuala Lumpur<br>Malaysia |
| **PRINCIPAL BANKERS** | CIMB Bank Berhad<br>Malayan Banking Berhad<br>EON Bank Berhad<br>RHB Bank Berhad |
| **REGISTERED OFFICE** | 11th Floor, Wisma Bumi Raya<br>No. 10 Jalan Raja Laut<br>50350 Kuala Lumpur<br>Malaysia<br>Tel : 03-26985033<br>Fax : 03-26944209<br>Website : www.pacific-orient.com |
| **STOCK EXCHANGE LISTING** | Bursa Malaysia Securities Berhad<br>Main Board |

# PROFILE OF THE BOARD OF DIRECTORS

**Mr Chan Hua Eng** (79), Malaysian
Non-Executive Chairman

Mr Chan has been on the Board since March 1995. Mr Chan is the father of Mr Chan Thye Seng, the Chief Executive Officer and Managing Director. He graduated with a Bachelor of Law (Honours) degree from the University of Bristol in 1952 and was called to the Bar at Middle Temple in 1953. He is an associate member of the Institute of Taxation. Until his retirement in 1987, he was the senior partner of a large legal firm in Kuala Lumpur during the major part of which he was engaged in corporate advisory work.

He is an independent non-executive director of Lingui Developments Berhad, Lafarge Malayan Cement Berhad, Glenealy Plantations (Malaya) Berhad and a non-independent non-executive director of Rohas-Euco Industries Berhad.

**Mr Michael Yee Kim Shing** (69), Malaysian
Independent Non-Executive Director, Chairman of the Audit Committee, member of the Nominating Committee and the Remuneration Committee

Mr Yee joined the Board in February 1995. He received his tertiary education at the University of Melbourne, graduating with a Bachelor of Commerce degree and is a member of the Malaysian Institute of Accountants, the Institute of Chartered Accountants, Australia and the Institute of Certified Public Accountants of Singapore. He was a practising accountant for more than 26 years, retiring as a senior partner in Ernst & Whinney (now known as Ernst & Young).

He is an independent non-executive director and chairman of the audit committees of Pacific & Orient Insurance Co. Berhad and Dataprep Holdings Berhad.

**Mr Chan Thye Seng** (51), Malaysian
Managing Director and Chief Executive Officer

Mr Chan joined the Board in March 1995. Mr Chan is the son of Mr Chan Hua Eng. He had 13 years experience as a practising lawyer, after having been called to the Bar at Middle Temple in 1980 and the Malaysian Bar in 1982. He graduated from University College Cardiff with a Bachelor of Law (Honours) degree. He was previously on the Boards of the Kuala Lumpur Commodities Exchange and Malaysian Futures Clearing Corporation Sdn Bhd.

He is also a non-executive director of Ancom Berhad and Pacific & Orient Insurance Co. Berhad.

Mr Chan is a director and major shareholder of Mah Wing Holdings Sdn Bhd as well as director and beneficial owner of Mah Wing Investments Limited both of which are major shareholders of the Company.

**Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed** (63), Malaysian
Independent Non-Executive Director, Chairman of the Nominating Committee and the Remuneration Committee, member of the Audit Committee

Y.M. Tunku Dato' Mu'tamir joined the Board in September 1995. He is an associate member of the Institute of Chartered Secretaries and Administrators and a member of the Malaysian Institute of Chartered Secretaries and Administrators. Y.M. Tunku Dato' Mu'tamir is also a member of the Dewan Perniagaan Melayu Bandaraya, Kuala Lumpur. Since 1976, he has been the executive director of Syarikat Sri Timang Sdn Bhd, an investment holding company.

# PROFILE OF THE BOARD OF DIRECTORS

**Y.Bhg. Dato' Abu Hanifah Bin Noordin** (56), Malaysian
Independent Non-Executive Director, member of the Audit Committee, the Nominating Committee and the Remuneration Committee

Y.Bhg. Dato' Hanifah has been on the Board since June 1997. He graduated from University Malaya with an honours degree in Economics and subsequently qualified as a Chartered Accountant and a Certified Public Accountant. He was the Chairman and Managing Partner of Turquand Young & Co./Ernst & Whinney (now known as Ernst & Young) for 9 years. He was also the President of the Malaysian Institute of Accountants for 13 years and in that capacity served as a Board member of the International Accounting Standards Committee (IASC).

He is also an independent non-executive director of Mega First Corporation Berhad and Pacific & Orient Insurance Co. Berhad.

The interests of each Director in the shares of the Company are disclosed on page 110 (Shareholdings Statistics).
None of the Directors has been convicted of any offence other than traffic offences within the last ten years.

# CORPORATE GOVERNANCE and STATEMENT OF DIRECTORS' RESPONSIBILITIES

## A. THE MALAYSIAN CODE ON CORPORATE GOVERNANCE ("CODE")

Pursuant to paragraph 15.26 of the Listing Requirements of Bursa Malaysia Securities Berhad, a public listed company is required to disclose in its annual report narrative statements on application of the principles of Corporate Governance set out in the Malaysian Code on Corporate Governance

- stating how they have applied the principles contained within the Code to their circumstances; and
- explaining the extent to which they have been able to comply with best practices suggested by the Code, areas of and reasons for non-compliance and alternatives adopted; if any.

The Code was revised on 1 October 2007 subsequent to the Company's financial year-end. The Board of Directors supports the objectives of the Code and also acknowledges its role in ensuring that shareholders' interests are properly looked after. For this reason, the Board of Directors affirms its policy of adhering to the spirit of the Code.

It should be noted, however, that although the intentions and existing customs of the Board and your Company substantially coincide with the Best Practices contained within the Code, there may be instances where some of the formal structures and mechanisms were not in place during the financial year under review. Where appropriate, those areas where the Best Practices had not been complied with are explained below.

## B. BOARD OF DIRECTORS

### 1. Composition and Attendance

The composition of the Board, and the individual Directors' attendance of meetings during the financial year ended 30 September 2007 were as follows:

| | | Meetings Attended (Out of 4 Held) |
|---|---|---|
| Mr Chan Hua Eng | Non-Executive Chairman | 4 |
| Mr Chan Thye Seng | Managing Director/Chief Executive Officer | 4 |
| Mr Michael Yee Kim Shing | Independent Non-Executive Director | 4 |
| Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed | Independent Non-Executive Director | 4 |
| Y.Bhg. Dato' Abu Hanifah Bin Noordin | Independent Non-Executive Director | 3 |

The Board is of the view that it has the right mix of individual qualities to fulfil its role. Taken as a whole, the Board represents many years' experience in financial, legal and corporate affairs and is therefore suited to the oversight of your Company. The background of each Director is provided on pages 10 to 11 of this Annual Report.

Independent Non-Executive directors form more than half of the Board thus ensuring that minority shareholders' interests are adequately represented. In the opinion of the Board, the appointment of a Senior Independent Non-Executive Director to whom any concerns should be conveyed is not necessary. The Board operates in an open environment in which opinions and information are freely exchanged and in these circumstances any concerns need not be focussed on a single director as all members of the Board fulfil this role individually and collectively.

The Board is alert to the possibility of potential conflicts of interest involving the Directors and the Company and affirms its commitment to ensuring that such situations of conflict are avoided.

**2. Appointment, Re-election and Size of Board**

In accordance with the Articles of Association of the Company, all directors shall retire from office once at least every three (3) years, but shall be eligible for re-election. An election of directors shall take place each year. A director over seventy years of age is required to submit himself for re-election annually in accordance with Section 129(6) of the Companies Act, 1965.

The size of the Company's Board was unchanged from the previous financial year and since the Group's operations remained the same, it was considered not necessary to reassess or vary the composition and size of the Board.

**3. Remuneration**

The remuneration of the Executive Director is contractually set (his contract of service runs for three years, expiring in 2008) except for the bonus element which is determined by the full Board. The remuneration of the Non-Executive Directors is deliberated upon by the full Board before recommendation is made to the shareholders who shall decide by resolution in general meeting.

The Directors' remuneration during the financial year was as follows:

| | RM | No. of Directors |
|---|---|---|
| **Non-Executive:** | | |
| Up to RM50,000 | | |
| • Fees | 35,000 | 1 |
| • Fees | 40,000 | 3 |
| **Aggregate** | | |
| • Fees | 155,000 | |
| **Executive:** | | |
| RM600,001 to RM650,000 | | |
| • Salary and other remuneration | 484,800 | 1 |
| • Allowances | 120,000 | |
| • Benefits-in-kind | 33,645 | |
| | 638,445 | |
| **Aggregate** | | |
| • Salary and other remuneration | 484,800 | |
| • Allowances | 120,000 | |
| • Benefits-in-kind | 33,645 | |
| | 638,445 | |

The above disclosure is in full compliance with the Listing Requirements of Bursa Malaysia Securities Berhad. Although the said disclosure does not fully comply with the requirements of the Securities Commission, in the view of the Board of Directors, sufficient information is contained therein.

**4. Responsibilities**

The Board maintains a list of matters reserved for its decision. The purpose of this is to ensure that the Board and management are clearly aware of where the limits of responsibility lie and that due consideration is given to issues at the appropriate level.

**5. Supply of Information**

Prior to all Board meetings the Company Secretarial Department distributes Board papers containing management and financial information relevant to the business of the meetings.

Further, the Board has access to advice and services of the two Company Secretaries. This is augmented by regular informal dialogue between key non-executive members of the Board and management on matters pertaining to the state of the Company's affairs.

**6. Training**

During the financial year, all Directors including members of the Audit Committee attended a half-day workshop on Financial Reporting Standards (FRS) updates organised by the Company. In addition, Directors continuously receive briefings and updates on the Group's businesses and operations, risk management activities and new developments in the business environment. The Directors are also encouraged to attend external seminars.

**7. Board Committees**

The Board delegates specific responsibilities to three committees; namely, Audit Committee, Nominating Committee and Remuneration Committee. All the committees have written terms of reference and the Board receives reports of their proceedings and deliberations.

**7.1 Audit Committee**

The Audit Committee plays an active role in assisting the Board in discharging its governance responsibilities which include maintaining a sound system of internal control. The Audit Committee Report is set out separately on pages 18 to 23 of this Annual Report.

**7.2 Nominating Committee**

The Nominating Committee is primarily responsible for recommending suitable appointments to the Board taking into consideration the Board structure, size, composition and the required mix of expertise and experience which the Director should bring to the Board. It assesses the effectiveness of the Board as a whole, the committees of the Board and the contribution of each Director, including non-executive directors, as well as the chief executive officer.

The Nominating Committee comprises Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed (Chairman), Mr. Michael Yee Kim Shing and Y.B. Dato' Abu Hanifah Bin Noordin. All three members are Independent Non-Executive Directors. During the financial year under review the Nominating Committee held a meeting on 30 November 2006.

**7.3 Remuneration Committee**

The Remuneration Committee is primarily responsible for determining and recommending to the Board the remuneration packages of the Executive Director of the Company. It is also responsible for reviewing and recommending to the Board, the remuneration of the Non-Executive Directors.

Membership of the Remuneration Committee is the same as that of the Nominating Committee. During the financial year under review the Remuneration Committee held a meeting on 30 November 2006.

## C. SHAREHOLDERS

The Board recognises the value of good investor relations and the importance of disseminating information in a fair and equitable manner. The participation of shareholders, both individual and institutional, at general meetings is encouraged whilst requests for briefings from the press and investment analysts are usually met as a matter of course.

In addition, the Company maintains a website with links to announcements of results and annual reports.

## D. ACCOUNTABILITY AND AUDIT

### 1. The Audit Committee

The Audit Committee was set up in 1995. The composition of the Committee, its terms of reference, attendance of meetings by individual members and a summary of its activities during the financial year are set out on pages 18 to 23 of this Annual Report.

### 2. Responsibility For Annual Audited Financial Statements

The Directors are responsible for the preparation of financial statements each financial year in accordance with the requirements of the Companies Act, 1965 and applicable approved accounting standards in Malaysia. Central to those requirements is the need to ensure that these accounts present a true and fair view of the state of affairs of the Group and the Company, the results, cash flows and statement of changes in equity. In the preparation of these financial statements for the year under review, appropriate accounting policies have been selected and they have been applied in a consistent manner.

This statement is made in accordance with a resolution of the Board of Directors.

# STATEMENT OF INTERNAL CONTROLS

In the Pacific & Orient Group, the Board of Directors has overall responsibility for internal control and reviewing its effectiveness. A set of policies and procedures is in place to ensure that assets are adequately protected against unauthorised use or disposal and that the interests of shareholders are safeguarded. The systems in place are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board maintains an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. The Board meets regularly and has a schedule of matters that are brought to it for decision in order that effective control over strategic, financial, operational and compliance issues can be maintained. This structure includes the Audit Committee and Group Internal Audit Department (IAD).

The Group consists of several companies, each of which has its own management and internal control structures.  Operating management of each business unit bears responsibility for the identification and mitigation of major business risks and each maintains controls and procedures appropriate to its own business environment. These include, inter alia, setting up of a Risk Management Committee (the majority of whose members are independent directors) by the insurance subsidiary to oversee the company's procedures in identifying and mitigating significant risks and reviewing the regular risk assessment reports.

The Audit Committee, together with Group IAD and senior management, reviews the effectiveness of the internal financial and operating control environment of the Group. The Audit Committee holds regular meetings and reviews reports from internal and external auditors covering such matters. Significant issues are brought to the attention of the Board.

# ADDITIONAL COMPLIANCE STATEMENT

During the financial year under review:

a. there were no

- warrants or convertible securities exercised
- American Depository Receipt or Global Depository Receipt programmes sponsored by the Company
- sanctions and/or penalties imposed on the Company or its subsidiaries, directors or management by any relevant authority
- profit estimates, forecasts or projections or unaudited results released which differ by 10 per cent or more from the audited results
- profit guarantees given in respect of the Company
- material contracts between the Company and its subsidiaries that involve directors' or major shareholders' interests
- loans between the Company and its subsidiaries that involve directors' or major shareholders' interests

b. the Company did not have a policy on revaluation of landed properties

c. non-audit fees paid to the external auditors during the financial year amounted to RM15,500.

# REPORT OF THE AUDIT COMMITTEE

**MEMBERS**

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

Y.M. Tunku Dato' Mu'tamir bin Tunku Tan Sri Mohamed
(Independent Non-Executive Director)

Dato' Abu Hanifah bin Noordin
(Independent Non-Executive Director)

**The terms of reference of the Committee are as follows:**

**1. Membership**

1.1 The Committee shall be appointed by the Board of Directors from amongst the Directors of the Company and shall consist of not less than three (3) members.

1.2 The majority of the members including the Chairman of the Committee shall be Independent Directors as defined in Chapter 1 of the Listing Requirements of the Bursa Malaysia Securities Berhad ("BMSB").

1.3 The Committee shall include at least one person:

(a) who is a member of the Malaysian Institute of Accountants; or

(b) who must have at least 3 year's working experience and :
(i) have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
(ii) is a member of one of the Associations specified in Part II of the 1st Schedule of the Accountants Act, 1967.

1.4 No alternate Directors shall be appointed as a member of the Committee.

1.5 The members of the Committee shall elect a Chairman from amongst their number.

1.6 If a member of the Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall, within three months appoint such number of new members as may be required to make up the minimum of three (3) members.

1.7 The terms of office and performance of the Committee and each of its members shall be reviewed by the Board no less than once every three (3) years. However, the appointment terminates when a member ceases to be a Director.

**2. Meetings**

2.1 The quorum for a Committee meeting shall be at least two (2) members; the majority present must be Independent Directors.

2.2 The Committee shall meet at least four (4) times a year and such additional meetings as the Chairman shall decide.

2.3 Notwithstanding paragraph 2.2 above, upon the request of any member of the Committee, non-member Directors, the Internal or External Auditors, the Chairman shall convene a meeting of the Committee to consider the matters brought to its attention.

2.4 The External Auditors have the right to appear and be heard at any meeting of the Committee and shall appear before the Committee when required to do so.

2.5 The Committee may invite any non-member Directors or employee of the company and of the Group who the Committee thinks fit and proper to attend its meetings to assist in its deliberations and resolutions of matters raised.

2.6 The Internal Auditors shall be in attendance at all meetings to present and discuss the audit reports and other related matters and the recommendations relating thereto and to follow up on all relevant decisions made.

2.7 The Company Secretary shall act as Secretary of the Committee and shall be responsible, with the concurrence of the Chairman, for drawing up and circulating the agenda and the notice of meetings together with the supporting explanatory documentation to members prior to each meeting.

2.8 The Secretary of the Committee shall be entrusted to record all proceedings and minutes of all meetings of the Committee.

2.9 In addition to the availability of detailed minutes of the Committee's meetings to all Board members, the Committee at each Board meeting will report a summary of significant matters and resolutions.

**3. Rights and Authority**

The Committee is authorised to:

3.1 Investigate any matter within its terms of reference.

3.2 Have adequate resources required to perform its duties.

3.3 Have full and unrestricted access to information, records and documents relevant to its activities.

3.4 Have direct communication channels with the External and Internal Auditors.

3.5 Engage, consult and obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise it considers necessary.

**4. Functions and Duties**

4.1 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 and the Group.

4.2 To review the following and report to the Board:

(a) With the External Auditors:

(i) The audit plan and audit report and the extent of assistance rendered by employees of the Auditee.
(ii) Their evaluation of the system of internal controls.
(iii) The audit fee and on matter concerning their suitability for nomination, appointment and re-appointment and the underlying reasons for resignation or dismissal as Auditors.
(iv) The management letter and management's response.
(v) Issues and reservations arising from audits.

(b) With the Internal Audit Department:

(i) The adequacy and relevance of the scope, functions and resources of internal audit and the necessary authority to carry out its work.
(ii) The audit plan of work program and results of internal audit processes including actions taken on recommendations.
(iii) The extent of cooperation and assistance rendered by employees of Auditee.
(iv) The appraisal of the performance of the internal audit including that of the senior staff and any matter concerning their appointment and termination.

(c) The quarterly results and year end financial statement of accounts prior to the approval by the Board, focusing particularly on:

(i) Changes and implementation of major accounting policies and practices.
(ii) Significant and unusual issues.
(iii) Going concern assumption.
(iv) Compliance with accounting standards, regulatory and other legal requirements.

(d) The major findings of investigations and management response.

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

4.3 To report any breaches of the Listing Requirements which have not been satisfactorily resolved, to BMSB.

4.4 To prepare the Audit Committee Report for inclusion in the Company's Annual Report covering:

(a) The composition of the Committee including the name, designation and directorship of the members.
(b) The terms of reference of the Committee.
(c) The number of meetings held and details of attendance of each member.
(d) A summary of the activities of the Committee in the discharge of its functions and duties.
(e) A summary of the activities of the internal audit function.

4.5 To review the following for publication in the Company's Annual Report:

(a) The disclosure statement of the Board on:

(i) The Company's applications of the principles set out in Part I of the Malaysian Code on Corporate Governance.
(ii) The extent of compliance with the best practices set out in Part II of the Malaysian Code on Corporate Governance, specifying reasons for any area of non-compliance and the alternative measures adopted in such areas.

(b) The statement on the Board's responsibility for the preparation of the annual audited financial statements.

(c) The disclosure statement on the state of the system of internal controls of the Company and of the Group.

(d) Other disclosures forming the contents of annual report spelt out in Part A of Appendix 9C of the Listing Requirements of BMSB.

The above functions and duties are in addition to such other functions as may be agreed to from time to time by the Committee and the Board.

**5. Internal Audit Department**

5.1 The Head of the Internal Audit Department shall have unrestricted access to the Committee members and report to the Committee whose scope of responsibility includes overseeing the development and the establishment of the internal audit function.

5.2 In respect of the routine administrative matters, the Head of the Internal Audit Department shall report to the Group Chief Executive.

Pursuant to the issuance of the revised Malaysian Code on Corporate Governance which took effect on 1 October 2007, the above terms of reference of the Committee was subsequently revised and updated, as appropriate, to be in line with the principles and best practices contained in the Code. The revised terms of reference was approved by the Board for adoption on 29 November 2007. In spite of the revision, the revised terms of reference of the Committee remains substantially the same as the above existing terms of reference.

**Attendance at Meetings**

A total of four (4) Audit Committee meetings were held during the financial year ended 30 September 2007. The details of attendance of the Committee members are as follows: -

| Name of Committee Member | Number of meetings attended |
|---|---|
| Michael Yee Kim Shing | 4/4 |
| Y.M. Tunku Dato' Mu'tamir bin Tunku Tan Sri Mohamed | 4/4 |
| Dato' Abu Hanifah bin Noordin | 4/4 |

**Activities of the Committee**

The summary of the activities of the Audit Committee in the discharge of its duties and responsibilities for the financial year ended 30 September 2007 included the following:

(a) Reviewed the revised Terms of Reference of the Committee for recommendation to the Board of Directors.

(b) Reviewed and approved the updated Internal Audit Charter and Job Descriptions of the Internal Audit staff.

(c) Reviewed the adequacy and relevance of the scope, functions, resources, risk-based internal audit plans and results of the internal audit processes, with the Internal Audit Department; and that it has the necessary authority to carry out its work.

(d) Reviewed the audit activities (comprising risk management, control and governance evaluations) carried out by the Internal Audit Department and the audit reports to ensure corrective actions were taken in addressing the risk issues reported.

(e) Reviewed with the assistance of the Internal Audit Department and management, all related party transactions entered into by the Company and the Group to ensure that the transactions entered into were at arm's length basis and on normal commercial terms and the adequacy, appropriateness and compliance of the procedures established to monitor related party transactions.

(f) Reviewed with the External Auditors the audit plan of the Company and of the Group for the year (inclusive of audit approach, system evaluation, audit fees, issues raised and management responses) prior to the commencement of the annual audit.

(g) Reviewed the extent of assistance rendered by management and issues and reservations arising from audits with the External Auditors without the presence of management staff.

h) Reviewed the financial statements, the audit report, issues and reservations arising from statutory audit with the External Auditors.

(i) Reviewed and recommended for the Board's approval, the re-appointment of External Auditors.

(j) Review and recommended for the Board's approval the audit fees for the financial year ended 30th September 2007.

(k) Reviewed the quarterly results and financial statements with management for recommendation to the Board of Directors for approval and release to BMSB.

(l) Reported to the Board on significant issues and concerns discussed during the Audit Committee's meetings together with applicable recommendations. Minutes of meetings were made available to all Board members.

(m) Reviewed and approved the Audit Committee Report for inclusion in the Company's Annual Report.

(n) Reviewed the disclosure statements on compliance of the Malaysian Code of Corporate Governance and the Statement of Internal Controls for inclusion in the Company's Annual Report.

(o) Discussed the implications of any latest changes and pronouncements on the Company and the Group, which were issued by the accountancy, statutory and regulatory bodies.

(p) Reviewed key procedures established by management prior to adoption by the Board of Directors.

(q) Reviewed the performance appraisal of key audit staff.

In respect of the Company's Employees' Share Option Scheme, there was no allocation of options during the year for the Audit Committee to review.

**Internal Audit Activities Report**

The primary responsibility of the Company's Internal Audit Department is to undertake regular and systematic reviews of the internal controls, risk management and corporate governance systems of the Company and the Group so as to provide reasonable assurance that the controls are operating satisfactorily and effectively and are in line with the Group's goals and objectives.

The summary of the activities of the Internal Audit Department for the year ended 30 September 2007 is as follows:

(a) Assisted the Audit Committee to revise and update its Terms of Reference.

(b) Reviewed and updated the Internal Audit Charter and Job Descriptions of the Internal Audit staff for the Audit Committee's approval.

(c) Prepared the annual Audit Plan for the approval of the Audit Committee.

(d) Regularly performed risk-based audits on strategic business units of the Company and of the Group, which covered reviews of the internal control system, accounting and management information systems and risk management.

(e) Issued audit reports to the Audit Committee and management identifying weaknesses and issues as well as highlighting recommendations for improvement.

(f) Acted on suggestions made by the Audit Committee members and/or senior management on concerns over operations or control.

(g) Followed up on management corrective actions on audit issues raised by the internal auditors and external auditors. Determined whether corrective actions taken had achieved the desired results.

(h) Reported to the Audit Committee on review of the adequacy, appropriateness and compliance with the procedures established to monitor related party transactions.

(i) Reviewed the quarterly results and financial statements with management and the Audit Committee.

(j) Reviewed on the appropriateness of the disclosure statements in regard to compliance with the Malaysian Code on Corporate Governance and the Statement on Internal Control as well as the Audit Committee Report.

(k) Attended Audit Committee meetings to table and discuss the audit reports and follow up on matters raised.

# CHAIRMAN'S STATEMENT

On behalf of your Board of Directors, I have the pleasure of presenting the Annual Report and Audited Financial Statements of your Company for the year ended 30 September 2007.

## FINANCIAL RESULTS

The Group registered a slightly lower turnover of RM256.9 million in 2007 when compared to the amount of RM266.2 million attained in 2006. The reduction was primarily due to lower gross premium and dividend income at the insurance subsidiary company.

A substantial surplus of RM21.0 million resulting from the return of capital in respect of an investment made in prior years by the insurance subsidiary company helped the Group achieve a pre-tax profit of RM10.8 million as compared to a pre-tax loss of RM7.4 million the year before. The result at after-tax level was a profit of RM3.2 million against a loss of RM11.4 million in 2006.

At Company level, turnover improved appreciably in 2007 when compared to the year before as dividend received from the insurance subsidiary increased more than two-fold. Consequently, the pre-tax profit rose to RM8.9 million from the RM2.2 million recorded in 2006 and net profit more than doubled to RM7.5 million from RM3.4 million.

## ACTIVITIES AND PROSPECTS OF THE GROUP

The Second Finance Minister, during his keynote address at the Khazanah Megatrends Forum held on 1 November 2007 in Kuala Lumpur, had stated his expectation that Malaysia would achieve 6 per cent gross domestic product ("GDP") growth in 2007 and was optimistic of the economy maintaining its growth momentum into 2008. The Minister stood fast on his view despite the credit turmoil in the United States which caused severe turbulence in the financial markets of several developed economies. The International Monetary Fund ("IMF") had commented in its Global Financial Stability Report released on 24 September 2007 in Washington that these disturbances were likely to create protracted instability in the global economy and the potential consequences should not be underestimated as downside risks had increased.

Meanwhile, the Malaysian Institute of Economic Research ("MIER"), in its third quarter "Malaysia Economic Outlook" released on 25 October 2007, lowered the 2008 growth forecast for Malaysia to 5.4 per cent in the light of IMF's downward forecast revision for the world economy owing to fallout from the US credit turmoil and also pin-pointed rising oil prices as another factor that could derail the global economy.

Amidst this, the Second Finance Minister remains sanguine and takes the view that Malaysia's growth in 2008 may even surpass the level achieved in 2007 because the government has been diversifying the sources of growth in a well-thought-out way so that even if there is a downturn in its major trading partners, the effect on the country will not be significant.

On a related note, the Asian Development Bank, in its update on "Asian Development Outlook" released on 17 September 2007, identified robust domestic demand and improvement in exports of non-electrical and electronic goods led by commodities, mainly oil and gas and palm oil as the main drivers that will sustain Malaysia's growth momentum into 2008.

Against a backdrop strewn with differing perspectives, your Board is cautiously optimistic about the Company's performance for the current year. Shareholders should be mindful that we are not fully insulated from the negative impact arising from existing weaknesses in US financial markets as well as inflationary pressures due to escalating oil prices, both of which could dampen local optimism and diminish consumer and business confidence.

## Financial Services

The division comprises Pacific & Orient Insurance Co. Berhad ("POI") and P&O Capital Sdn. Bhd. ("POC"), a money lending company.

### Insurance

The implementation by the government of its new National Automotive Policy in 2006 has led to structural changes in the motor industry. One consequence has been a significant drop in the resale value of used cars. This has been identified by industry observers as one of the causes for the decline in new car sales because buyers of new cars have to bear with much larger down-payments as the difference between the trade-in value of their existing vehicles and the price of new ones has widened considerably (Prices of some new cars have also dipped but in terms of percentage, not as substantially as the reduction in prices of used cars). The situation has also been worsened by the tightening up of credit assessment procedures by lenders in respect of automobile financing.

This scenario has had a negative impact on POI because, on average, the sums for which automobiles are insured whether for the first time or upon renewal, have fallen thereby reducing premium income. To mitigate the effects of this, POI has taken initiatives to rebalance the company's motor portfolio systematically.

As reported last year, insurance companies will be subject to a Risk Based Capital Framework and in this regard, Bank Negara Malaysia has already issued guidelines for mandatory compliance from January 1 2009 onwards. The new requirement is to facilitate more efficient capital structures and provide greater investment flexibility to insurers without compromising on prudential standards. POI is in the process of instituting the changes necessary to manage this transition.

Thus, in accordance with Bank Negara Malaysia requirement that Incurred But Not Reported (IBNR) claims reserve be estimated along prudential lines, the "negative IBNR" (excess claims reserve) in 2007 for certain classes of business of POI, as estimated by an independent professional actuary was not offset against the total estimated IBNR claims reserve to arrive at the final estimated reserve required to settle future claims. This has resulted in greater likelihood of an excess in claims reserve over the amount that is expected to be paid to settle future claims.

Pre-tax profit for 2007 rose to RM27.0 million as against RM18.5 million the year before. The improvement in the financial results in 2007 was mainly attributable to a gain of RM21.0 million being return of capital from an investee company which underwent a voluntary liquidation exercise. This was partially offset by an increase in unearned premium reserves resulting from the higher retention of premium income.

### Money Lending

Turnover at POC increased marginally to RM1.22 million in 2007 from RM1.16 million the year before owing to a slight increase in interest income. Unlike the previous year, there were no large financial charges and consequently, the company managed to turn around in 2007 with a modest pre-tax profit of RM0.02 million after having incurred a substantial pre-tax loss of RM9.51 million in 2006.

## Information Technology (IT)

The wide and often sensational coverage in the media of increasing occurrences of serious crimes has raised public consciousness of this issue. The private sector, especially those companies engaged in hospitality and allied businesses, are now more willing to invest resources in crime prevention. In relation to this, P&O Global Technologies ("POGT") concluded an agreement with a large public-listed group involved in a wide range of activities including hospitality, education, entertainment and high-end property development to provide them with the latest surveillance product and services.

Besides law enforcement agencies many other public sector organisations are now playing a greater role in deterring crimes. POGT has benefited from available opportunities and successfully entered into lease arrangements with local authorities to install surveillance equipment in certain public areas under their administration.

In the United States, similar marketing strategies have been applied but progress is slow. In Thailand, POGT continues to build upon existing clients who are mainly financial institutions using our web-based systems that are being regularly updated to meet prevailing application requirements.

In 2007 turnover of the division grew moderately to RM11.7 million as against RM10.1 million the year before. Owing to increase in cost of sales which narrowed gross margins, a slightly higher pre-tax loss of RM9.9 million was incurred (RM9.5 million in 2006).

## DIVIDEND

In respect of the financial year ended 30 September 2007, the first interim dividend of 3.75 sen per share less tax and second interim dividend of 3.75 sen per share less tax, were paid on 28 February 2007 and 26 June 2007 respectively.

On 16 January 2007, a total of 2,936,852 treasury shares valued at RM5,224,000 were distributed as share dividends to shareholders on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each held on 4 January 2007.

On 26 June 2007, a total of 2,978,786 treasury shares valued at RM5,213,000 were distributed as share dividends to shareholders on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each held on 13 June 2007.

The Directors had on 22 November 2007 declared a third interim dividend of 3.75 sen per share less tax in respect of the financial year ended 30 September 2007, which was paid on 19 December 2007. This dividend has not been reflected in the financial statements but it will be accounted for in the financial year ending 30 September 2008. The Directors do not recommend the payment of any final dividend for the current financial year.

## APPRECIATION

On behalf of the Board of Directors, I would like to acknowledge the efforts put in by management and staff during the year and to thank our business associates for continued co-operation and support.

**CHAN HUA ENG**
Chairman
Kuala Lumpur
January 2008

# PENYATA PENGERUSI

Bagi pihak Lembaga Pengarah, saya dengan sukacitanya mengemukakan Laporan Tahunan dan Penyata Kewangan Teraudit Syarikat bagi tahun berakhir 30 September 2007.

**KEPUTUSAN KEWANGAN**

Kumpulan mencatat jumlah dagangan yang lebih rendah sebanyak RM 256.9 juta diperolehi pada 2007 berbanding dengan jumlah sebanyak RM 266.2 juta diperolehi pada 2006. Pengurangan adalah terutamanya disebabkan oleh premium kasar dan pendapatan dividen yang lebih rendah dari anak syarikat insurans.

Lebihan yang besar sebanyak RM 21.0 juta hasil daripada pulangan modal berikutan dengan pelaburan yang telah dibuat dalam tahun-tahun terdahulu oleh anak syarikat insurans telah membantu Kumpulan mencapai keuntungan pra cukai sebanyak RM 10.8 juta berbanding dengan kerugian pra cukai sebanyak RM 7.4 juta pada tahun sebelumnya. Keuntungan pada tahap selepas cukai adalah sebanyak RM 3.2 juta berbanding dengan kerugian sebanyak RM 11.4 juta pada 2006.

Pada peringkat Syarikat, jumlah dagangan meningkat dengan agak banyak pada 2007 apabila dibandingkan dengan tahun sebelumnya memandangkan dividen diterima daripada anak syarikat insurans bertambah dua kali ganda. Akibatnya, keuntungan pra cukai meningkat kepada RM 8.9 juta daripada RM 2.2 juta yang direkodkan dalam 2006 dan keuntungan bersih meningkat lebih dua kali ganda kepada RM 7.5 juta daripada RM 3.4 juta.



**KEGIATAN DAN PROSPEK KUMPULAN**

Menteri Kewangan Kedua, semasa ucapan dasar beliau di Forum Megatrend Khazanah yang diadakan pada 1 November 2007 di Kuala Lumpur, telah menyatakan jangkaan beliau bahawa Malaysia akan mencapai pertumbuhan keluaran dalam negeri kasar ("KDNK") sebanyak 6 peratus pada 2007 dan yakin ekonomi dapat mengekalkan momentum pertumbuhannya sehingga 2008. Menteri berpegang teguh dengan pandangan beliau di sebalik pergolakan kredit di Amerika Syarikat yang menyebabkan pergolakan teruk dalam pasaran kewangan bagi beberapa ekonomi negara maju. Tabung Kewangan Antarabangsa ("IMF") telah membuat ulasan dalam Laporan Kestabilan Kewangan Dunianya yang disiarkan pada 24hb September 2007 di Washington bahawa gangguan-gangguan ini berkemungkinan akan mencetuskan ketidakstabilan yang berpanjangan dalam ekonomi dunia dan akibat-akibat yang berkemungkinan berlaku tidak harus diperkecilkan memandangkan risiko kemelesetan telah meningkat.

Sementara itu, Institut Penyelidikan Ekonomi Malaysia ("MIER"), dalam "Tinjauan Ekonomi Malaysia" suku ketiganya seperti yang disiarkan pada 25 Oktober 2007, telah membuat ramalan bahawa pertumbuhan bagi Malaysia untuk tahun 2008 akan turun kepada 5.4 peratus memandangkan semakan menurun ramalan IMF bagi ekonomi dunia. Ini disebabkan oleh kesan sampingan daripada pergolakan kredit US dan juga mengaitkan kenaikan harga minyak sebagai salah satu lagi faktor yang boleh menggelincirkan ekonomi dunia.

Namun demikian, Menteri Kewangan Kedua kekal yakin dan berpendapat bahawa pertumbuhan Malaysia pada 2008 mungkin akan melepasi tahap prestasi yang dicapai pada 2007 disebabkan kerajaan telah mempelbagaikan sumber pertumbuhan melalui kajian yang terperinci agar kemelesetan dalam rakan-rakan perdagangan utamanya tidak akan memberi kesan ketara ke atas negara.

Berkenaan dengan isu yang sama, Asian Development Bank, dalam laporannya mengenai "Tinjauan Pembangunan Asia" yang disiarkan pada 17 September 2007, telah mengenal pasti permintaan dalam negeri yang kukuh dan peningkatan dalam eksport barangan bukan elektrik dan elektronik diterajui oleh komoditi, terutamanya minyak gas dan minyak sawit sebagai pemacu utama yang akan mempertahankan momentum pertumbuhan Malaysia sehingga ke tahun 2008.

# PENYATA PENGERUSI

Berlandaskan suasana yang berserak dengan perspektif berbeza, Lembaga Pengarah secara optimis yakin terhadap prestasi Syarikat bagi tahun semasa. Pemegang-pemegang saham haruslah mengingati bahawa kita tidak terlindung sepenuhnya daripada kesan negatif akibat daripada kelemahan yang telah wujud dalam pasaran kewangan US dan juga tekanan inflasi yang disebabkan oleh kenaikan harga minyak kedua-dua yang mana boleh melemahkan optimisme tempatan dan mengurangkan keyakinan pengguna dan peniaga.

## Perkhidmatan Kewangan

Bahagian ini terdiri daripada Pacific & Orient Insurance Co. Berhad ("POI") dan P&O Capital Sdn. Bhd. ("POC"), merupakan syarikat pemberian pinjaman wang.

### Insurans

Perlaksanaan Dasar Automotif Negara baru oleh kerajaan pada 2006 telah membawa perubahan struktur dalam industri motor. Kesan daripada perlaksanaan dasar ini telah mengakibatkan kejatuhan mendadak dalam nilai jualan semula kereta terpakai. Ini telah dikenal pasti oleh pemerhati industri sebagai salah satu penyebab bagi kemerosotan dalam jualan kereta baru disebabkan pembeli-pembeli kereta baru terpaksa menanggung lebih banyak bayaran muka memandangkan perbezaan di antara nilai tukar beli kenderaan sedia ada mereka dengan harga kenderaan baru semakin luas (harga beberapa kereta baru juga telah jatuh tetapi dari segi peratusan tidak seperti pengurangan dalam harga kereta terpakai). Keadaan ini telah menjadi semakin buruk disebabkan prosedur penilaian kredit yang semakin ketat oleh pemberi-pemberi pinjaman berhubung dengan pembiayaan automobil.

Senario ini memberi kesan negatif ke atas POI kerana, secara puratanya, jumlah yang diinsuranskan bagi automobil sama ada buat pertama kali atau semasa pembaharuan, telah mengurangkan pendapatan premium. Untuk mengurangkan kesan ini, POI telah mengambil inisiatif untuk mengimbangi semula portfolio motor syarikat secara sistematik.

Sepertimana dilaporkan pada tahun lepas, syarikat-syarikat insurans akan tertakluk kepada Rangka Kerja Modal Berasaskan Risiko dan dalam hubungan ini, Bank Negara Malaysia telah pun mengeluarkan garis panduan mandatori dari 1 Jan 2009 ke atas. Keperluan baru ini adalah untuk memudahkan struktur modal yang lebih cekap dan memberi lebih banyak kefleksibelan pelaburan kepada syarikat-syarikat insurans tanpa menjejaskan standardnya. POI adalah dalam proses memulakan perubahan yang diperlukan untuk menguruskan peralihan ini.

Oleh itu, selaras dengan keperluan Bank Negara Malaysia bahawa rizab tuntutan Ditanggung Tetapi Tidak Dilaporkan (IBNR) dianggarkan mengikut garis-garis berhemah, "IBNR negatif" (rizab tuntutan lebihan) pada 2007 untuk kelas perniagaan POI tertentu, sebagaimana dianggarkan oleh aktuari profesional bebas terhadap jumlah anggaran rizab tuntutan IBNR untuk mengira anggaran rizab akhir diperlukan tidak diimbangi untuk menyelesaikan tuntutan masa hadapan. Ini telah mengakibatkan kemungkinan lebih besar lebihan dalam rizab tuntutan berbanding jumlah yang dijangka perlu dibayar untuk menyelesaikan tuntutan masa hadapan.

Keuntungan pra cukai bagi 2007 meningkat kepada RM 27.0 juta berbanding dengan RM 18.5 juta dalam tahun sebelumnya. Peningkatan dalam keputusan kewangan pada 2007 adalah terutamanya boleh dikaitkan dengan laba sebanyak RM21.0 juta yang merupakan pulangan modal daripada syarikat pelaburan melalui langkah penyelesaian. Ini telah diseimbangkan sebahagiannya oleh peningkatan dalam rizab premium tidak diperolehi akibat daripada tahanan lebih tinggi pendapatan premium.

### Pemberian Pinjaman Wang

Jumlah dagangan POC meningkat sedikit sebanyak RM1.22 juta pada 2007 daripada RM1.16 juta pada tahun sebelumnya akibat daripada peningkatan kecil dalam pendapatan faedah. Tidak seperti tahun lepas, tiada caj kewangan besar dan akibatnya, syarikat berjaya pulih sekitar tahun 2007 dengan keuntungan pra cukai kecil sebanyak RM0.02 juta selepas menanggung kerugian pra cukai yang besar sebanyak RM 9.51 juta pada 2006.

# PENYATA PENGERUSI

**Teknologi Maklumat**

Liputan meluas mengenai peningkatan dalam kejadian jenayah serius menyedarkan orang awam mengenai betapa pentingnya isu ini. Sektor swasta, terutamanya syarikat-syarikat yang terlibat dalam perniagaan hospitaliti dan yang berkaitan, kini lebih bersedia untuk melabur sumbernya dalam pencegahan jenayah. Sehubungan dengan perkara ini, P&O Global Technologies ("POGT") menandatangani perjanjian dengan kumpulan tersenarai awam yang terlibat secara meluas dalam kegiatan termasuk hospitaliti, pendidikan, hiburan dan pembangunan harta berharga tinggi untuk menyediakan produk dan perkhidmatan pengawasan terkini.

Di samping agensi-agensi penguatkuasa, pertubuhan sektor awam lain kini memainkan peranan yang lebih besar dalam mencegah jenayah. POGT bagi memenuhi keperluan ini telah berjaya memasuki pengaturan pajakan dengan pihak berkuasa tempatan untuk memasang peralatan pengawasan di kawasan-kawasan awam tertentu di bawah pentadbiran mereka.

Di Amerika Syarikat, strategi pemasaran yang serupa telah digunakan tetapi kemajuannya adalah perlahan. Di Thailand, POGT terus membina klien-klien yang sedia ada terutamanya institusi kewangan yang menggunakan sistem berasaskan web kami yang kerap dikemas kinikan untuk memenuhi keperluan aplikasinya.

Pada 2007, jumlah dagangan bahagian ini telah meningkat secara sederhana kepada RM11.7 juta berbanding dengan RM10.1 juta tahun sebelumnya. Walau bagaimanapun, disebabkan oleh peningkatan dalam kos jualan, maka ini telah mengurangkan margin kasarnya dan ini telah mengakibatkan kerugian pra cukai meningkat sedikit sebanyak RM 9.9 juta. (RM 9.5 juta pada 2006).

## DIVIDEN

Berhubung dengan tahun kewangan berakhir 30 September 2007, dividen interim pertama sebanyak 3.75 sen setiap saham tolak cukai dan dividen interim kedua sebanyak 3.75 sen setiap saham tolak cukai, telah dibayar masing-masing pada 28 Februari 2007 dan 26 Jun 2007.

Pada 16 Januari 2007, sejumlah 2,936,852 saham perbendaharaan dinilaikan pada RM 5,224,000 telah diagih sebagai dividen saham kepada pemegang-pemegang saham berasaskan 1 saham perbendaharaan bagi setiap 35 saham biasa dibayar sepenuhnya bernilai RM 1.00 sesaham dipegang pada 4 Januari 2007.

Pada 26 Jun 2007, sejumlah 2,978,786 saham perbendaharaan dinilaikan pada RM 5,213,000 telah diagih sebagai dividen saham kepada pemegang-pemegang saham berasaskan 1 saham perbendaharaan bagi setiap 35 saham biasa dibayar sepenuhnya bernilai RM 1.00 sesaham dipegang pada 13 Jun 2007.

Pada 22 November 2007, para pengarah mengisytiharkan dividen interim ketiga sebanyak 3.75 sen setiap saham tolak cukai berhubung dengan tahun kewangan berakhir 30 September 2007, yang telah dibayar pada 19 Disember 2007. Dividen ini tidak ditunjukkan dalam penyata kewangan tetapi ia akan diakaunkan dalam tahun kewangan akan berakhir 30 September 2008. Para Pengarah tidak mengesyorkan bayaran apa-apa dividen akhir bagi tahun kewangan semasa.

## PENGHARGAAN

Bagi pihak Lembaga Pengarah, saya menghargai usaha-usaha yang diambil oleh pihak pengurusan dan kakitangan sepanjang tahun ini dan ingin mengucapkan terima kasih kepada rakan-rakan perniagaan atas kerjasama dan sokongan berterusan daripada mereka.

**CHAN HUA ENG**
Pengerusi
Kuala Lumpur
Januari 2008

# FINANCIAL STATEMENTS

# DIRECTORS' REPORT

The Directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 September 2007.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are that of investment holding and the provision of management services.

The principal activities of the subsidiary companies are as disclosed in Note 13 to the financial statements.

There were no significant changes in the principal activities of the Group and of the Company during the financial year.

## RESULTS

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Net profit for the year attributable to equity holders of the Company | 3,236 | 7,531 |

## DIVIDENDS

The amount of dividends paid or declared by the Company since 30 September 2006 were as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 30 September 2006 | |
| 3rd interim dividend of 3.75 sen per share less tax at 27% paid on 22 December 2006 | 2,818 |
| In respect of the financial year ended 30 September 2007 | |
| 1st interim dividend of 3.75 sen per share less tax at 27% paid on 28 February 2007 | 2,890 |
| 2nd interim dividend of 3.75 sen per share less tax at 27% paid on 26 June 2007 | 2,854 |
| | 8,562 |

In respect of the financial year ended 30 September 2007, the Directors had on 22 November 2007 declared a 3rd interim dividend of 3.75 sen per share less tax at 26%, estimated at RM2,935,000 based on the issued and paid-up share capital (net of treasury shares) as at 30 September 2007. The dividend will be paid on 19 December 2007 to depositors whose names appear in the Record of Depositors on 10 December 2007. This dividend has not been reflected in the financial statements for the current financial year but it will be accounted for in equity as an appropriation of retained profits for the financial year ending 30 September 2008. The Directors do not recommend the payment of any final dividend for the current financial year.

# DIRECTORS' REPORT

## 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.

Before the income statement and balance sheet of the Group 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 for the general insurance subsidiary company.

## ISSUE OF SHARES

During the financial year, the Company increased its issued and paid-up share capital from RM110,457,000 to RM110,647,000 by way of the issuance of 190,000 new ordinary shares of RM1.00 each fully paid pursuant to the Company's Employee Share Option Scheme (ESOS) at an exercise price of RM1.27 per ordinary share for cash.

The new ordinary shares of RM1.00 each issued and fully paid during the financial year rank pari passu in all respects with the Company's existing ordinary shares of RM1.00 each, fully paid.

## TREASURY SHARES

During the financial year, the Company purchased 3,967,000 of its issued ordinary shares of RM1.00 each fully paid from the open market at an average price of RM1.60 per share for a total consideration of RM6,362,000. The purchase transactions were financed by internally generated funds. These shares are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

On 16 January 2007, a total of 2,936,852 treasury shares valued at RM5,224,000 were distributed as share dividends to the shareholders on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 4 January 2007.

On 26 June 2007, a total of 2,978,786 treasury shares valued at RM5,213,000 were distributed as share dividends to the shareholders on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 13 June 2007.

Further relevant details are disclosed in Note 25 to the financial statements.

## SHARE OPTIONS

On 5 December 2002, the shareholders of the Company at an Extraordinary General Meeting approved the establishment of an ESOS of up to 10% of the issued and paid-up share capital of the Company.

The Board of Directors had, on 27 August 2007, approved the extension of the ESOS for another three (3) years to expire on 15 January 2011.

The main features of the ESOS are disclosed in Note 25.

The Company has been granted an exemption by the Companies Commission of Malaysia from having to disclose the names of option holders of less than 400,000 shares. The names of the option holders as of 30 September 2007 who have been granted options of 400,000 shares or more are disclosed as follows:

| Names of option holders | Number of Share Options Under ESOS of RM1.00 Each |
|---|---|
| Mr. Chan Thye Seng | 900,000 |
| Mr. Ong Eng Soon | 850,000 |
| En. Abdul Rahman Bin Talib | 850,000 |
| Mr. Wong Thean Yew | 500,000 |
| Mr. Khong Yuen Piaw | 480,000 |

## SHARE OPTIONS (Cont'd.)

The movement in the options of unissued new ordinary share of RM1.00 each and those that have lapsed/forfeited during the financial year were as follows:

| | Number of Share Options |
|---|---|
| At 1 October 2006 | 5,886,000 |
| Granted | - |
| Exercised* | (192,000) |
| Forfeited/lapsed | (35,000) |
| At 30 September 2007 | 5,659,000 |

* Includes 2,000 share options exercised on 28 September 2006 but alloted on 4 October 2007.

Details of share options exercised during the financial year and the fair value, at exercise date, of ordinary shares issued were as follows:

| Exercise Date | Exercise Price RM | Fair Value of Ordinary Shares RM | Number of Share Options '000 | Considerations Received RM'000 |
|---|---|---|---|---|
| October 2006 – September 2007 | 1.27 | 1.28 -1.77 | 190 | 241 |
| Less : Par value of ordinary shares | | | | (190) |
| Share premium | | | | 51 |

The share options outstanding as at the end of the financial year were as follows:

| Exercise Period | Exercise Price RM | Number of Share Options |
|---|---|---|
| 5.4.2003 – 15.1.2011 | 1.27 | 3,949,000 |
| 12.7.2003 – 15.1.2011 | 1.76 | 800,000 |
| 23.9.2004 – 15.1.2011 | 1.66 | 910,000 |
| | | 5,659,000 |

## BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of the Group and 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 all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

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

# DIRECTORS' REPORT

## CURRENT ASSETS

Before the income statements and balance sheets of the Group and 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 Group and 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 Group and 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 Group and 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 Group or 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 Group or of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Group or 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 Group or of the Company to meet their 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 insurance subsidiary 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 Group and 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 Group and of the Company during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

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

# DIRECTORS' REPORT

## DIRECTORS

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

Mr. Chan Hua Eng
Mr. Chan Thye Seng
Mr. Michael Yee Kim Shing
Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed
Y.Bhg. Dato' Abu Hanifah Bin Noordin

In accordance with Section 129(2) of the Companies Act, 1965, Mr. Chan Hua Eng 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 82 of the Company's Articles of Association, Y.Bhg. Dato' Abu Hanifah Bin Noordin 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 or its subsidiary companies are 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 a Director pursuant to the ESOS.

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 Note 31 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:

| | Number of Ordinary Shares of RM1.00 Each | | | | |
|---|---|---|---|---|---|
| **The Company** | **At 1 October 2006** | **Bought** | **Share dividend*** | **Sold** | **At 30 September 2007** |
| Mr. Chan Hua Eng | | | | | |
| - Direct interest | 130,583 | - | 7,569 | - | 138,152 |
| - Indirect interest | 59,765,512 | 2,004,400 | 3,438,860 | 740,000 | 64,468,772 |
| Mr. Chan Thye Seng | | | | | |
| - Direct interest | 8,210,725 | 1,526,800 | 475,888 | - | 10,213,413 |
| - Indirect interest | 51,669,047 | 477,600 | 2,969,595 | 740,000 | 54,376,242 |
| Mr. Michael Yee Kim Shing | | | | | |
| - Indirect interest | 970,266 | 3,453 ** | 54,379 | 65,000 | 963,098 |
| Y.Bhg. Dato' Abu Hanifah Bin Noordin | | | | | |
| - Indirect interest | 2,300,137 | - | 129,142 | 146,000 | 2,283,279 |

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS (Cont'd.)

| | Number of Ordinary Shares of RM1.00 Each | | | | |
|---|---|---|---|---|---|
| **The Company (Cont'd.)** | **At 1 October 2006** | **Bought** | **Share dividend*** | **Sold** | **At 30 September 2007** |
| Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed - Indirect interest | 3,464,376 | - | 197,135 | 128,000 | 3,533,511 |

* This represents two distributions of treasury shares by the Company as share dividends on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 4 January 2007 and 13 June 2007 respectively.

** This represents an adjustment as a consequence of Section 134 (12)(c) of the Companies Act, 1965, which came into force on 15 August 2007.

In addition to the above, the following Director is deemed to have an interest in the shares of the Company to the extent of the ESOS granted to him on 5 April 2003:

| | | Number of Share Options Under ESOS of RM1.00 Each | | | |
|---|---|---|---|---|---|
| **The Company** | **Exercise Price RM** | **At 1 October 2006** | **Granted** | **Exercised** | **At 30 September 2007** |
| Mr. Chan Thye Seng | 1.27 | 900,000 | - | - | 900,000 |

Mr. Chan Hua Eng and Mr. Chan Thye Seng, by virtue of their interests in the Company, are deemed to have an interest in the shares of all the subsidiary companies within the Group to the extent the Company has an interest.

Other than as stated above, none of the Directors who were in office at the end of the financial year had any interest in the shares of the subsidiary companies during the financial year.

## 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 29 November 2007

**CHAN THYE SENG** **MICHAEL YEE KIM SHING**

Kuala Lumpur

# STATEMENT BY DIRECTORS

We, CHAN THYE SENG and MICHAEL YEE KIM SHING, being two of the Directors of PACIFIC & ORIENT BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 39 to 106 are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 September 2007 and of the results and cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board
in accordance with a resolution
of the Directors dated 29 November 2007

**CHAN THYE SENG** **MICHAEL YEE KIM SHING**

Kuala Lumpur

# STATUTORY DECLARATION

I, ENG LIAN GEOK the Officer primarily responsible for the financial management of PACIFIC & ORIENT BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 39 to 106 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, l960.

Subscribed and solemnly declared by )
the abovenamed ENG LIAN GEOK )
at Kuala Lumpur in Wilayah )
Persekutuan on 29 November 2007 )

**ENG LIAN GEOK**

Before me:

**Mohd Radzi Bin Yasin**
Commissioner for Oaths
Kuala Lumpur

# REPORT OF THE AUDITORS
## TO THE MEMBERS OF PACIFIC & ORIENT BERHAD (Incorporated in Malaysia)

We have audited the financial statements set out on pages 39 to 106. These financial statements are the responsibility of the Company's directors.

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

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

 (i) the financial position of the Group and of the Company as at 30 September 2007 and of the results and cash flows of the Group and 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 and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors as indicated in Note 13 to the financial statements, being financial statements that have been included in the consolidated financial statements.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Companies Act, 1965.

**Ernst & Young**
**AF: 0039**
Chartered Accountants

**Habibah bte Abdul**
**1210/05/08(J)**
Partner

Kuala Lumpur, Malaysia
Dated: 29 November 2007

# BALANCE SHEETS
## AS AT 30 SEPTEMBER 2007

| | Note | Group 2007 RM'000 | Group 2006 RM'000 (restated) | Company 2007 RM'000 | Company 2006 RM'000 (restated) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | 6 | **15,235** | 19,562 | **561** | 557 |
| Investment properties | 7 | **585** | 1,436 | **-** | - |
| Prepaid land lease payments | 8 | **338** | 342 | **-** | - |
| Goodwill on consolidation | 9 | **1,935** | 1,935 | **-** | - |
| Intangible assets | 10 | **967** | 939 | **31** | 40 |
| Deferred tax assets | 11 | **18,495** | 27,503 | **510** | 1,725 |
| Investments | 12 | **561,042** | 521,338 | **19,806** | 19,185 |
| Investment in subsidiary companies | 13 | **-** | - | **132,062** | 116,641 |
| Inventories - goods for resale | 14 | **2,826** | 2,842 | **-** | - |
| Loans | 15 | **13,416** | 22,252 | **-** | - |
| Trade receivables | 16 | **10,752** | 7,124 | **-** | - |
| Other receivables | 16 | **17,323** | 13,477 | **2,673** | 1,273 |
| Due from subsidiary companies | 17 | **-** | - | **60,355** | 76,583 |
| Deposits and placements with financial institutions | 18 | **2,215** | 4,407 | **-** | 3,560 |
| Cash and bank balances | 19 | **5,014** | 4,478 | **203** | 208 |
| **TOTAL ASSETS** | | **650,143** | 627,635 | **216,201** | 219,772 |
| **LIABILITIES** | | | | | |
| Provision for outstanding claims | 20 | **292,583** | 276,933 | **-** | - |
| Trade payables | 21 | **5,602** | 6,725 | **-** | - |
| Other payables | 21 | **7,369** | 5,767 | **1,194** | 1,047 |
| Hire purchase creditors | 22 | **1,059** | 1,285 | **268** | 290 |
| Borrowings | 23 | **47,650** | 46,961 | **44,400** | 40,900 |
| **TOTAL LIABILITIES** | | **354,263** | 337,671 | **45,862** | 42,237 |
| **Unearned premium reserves** | 24 | **113,141** | 96,757 | **-** | - |
| **EQUITY** | | | | | |
| Share capital | 25 | **110,647** | 110,457 | **110,647** | 110,457 |
| Treasury shares | 25 | **(8,193)** | (12,268) | **(8,193)** | (12,268) |
| Share premium | | **21,847** | 32,277 | **21,847** | 32,277 |
| Merger reserve | | **40,769** | 40,769 | **-** | - |
| Translation reserve | | **501** | (615) | **-** | - |
| Retained profits | | **17,168** | 22,587 | **46,038** | 47,069 |
| | | **182,739** | 193,207 | **170,339** | 177,535 |
| **TOTAL LIABILITIES, UNEARNED PREMIUM RESERVES AND EQUITY** | | **650,143** | 627,635 | **216,201** | 219,772 |

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

# STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | <--------------------Attributable to equity holders of the Company--------------------> | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Issued and fully paid ordinary shares of <----RM1.00 each---->** | | | **<------Non-Distributable------>** | | | **Distributable** | |
| | **Number of Shares '000** | **Nominal Value RM'000** | **Treasury Shares RM'000** | **Share Premium RM'000** | **Merger Reserve RM'000** | **Translation Reserve RM'000** | **Retained Profits RM'000** | **Total RM'000** |
| At 1 October 2005 | 110,189 | 110,189 | (13,523) | 43,060 | 40,769 | (323) | 40,853 | 221,025 |
| Currency translation loss not recognised in the income statement | - | - | - | - | - | (292) | - | (292) |
| Issue of shares - ESOS | 268 | 268 | - | 73 | - | - | - | 341 |
| Purchase of treasury shares (Note 25) | - | - | (9,557) | - | - | - | - | (9,557) |
| Treasury share transfer fees | - | - | - | (44) | - | - | - | (44) |
| Distribution as share dividends | - | - | 10,812 | (10,812) | - | - | - | - |
| Net loss for the year | - | - | - | - | - | - | (11,414) | (11,414) |
| Dividends (Note 26) | - | - | - | - | - | - | (6,852) | (6,852) |
| At 30 September 2006 | **110,457** | **110,457** | **(12,268)** | **32,277** | **40,769** | **(615)** | **22,587** | **193,207** |
| At 1 October 2006 | | | | | | | | |
| As previously stated | 110,457 | 110,457 | (12,268) | 32,277 | 40,769 | (615) | 22,587 | 193,207 |
| Effects of adopting FRS 140 | - | - | - | - | - | - | (93) | (93) |
| At 1 October 2006 (restated) | 110,457 | 110,457 | (12,268) | 32,277 | 40,769 | (615) | 22,494 | 193,114 |
| Currency translation gain not recognised in the income statement | - | - | - | - | - | 1,116 | - | 1,116 |
| Issue of shares - ESOS | 190 | 190 | - | 51 | - | - | - | 241 |
| Purchase of treasury shares (Note 25) | - | - | (6,362) | - | - | - | - | (6,362) |
| Treasury share transfer fees | - | - | - | (44) | - | - | - | (44) |
| Distribution as share dividends | - | - | 10,437 | (10,437) | - | - | - | - |
| Net profit for the year | - | - | - | - | - | - | 3,236 | 3,236 |
| Dividends (Note 26) | - | - | - | - | - | - | (8,562) | (8,562) |
| At 30 September 2007 | **110,647** | **110,647** | **(8,193)** | **21,847** | **40,769** | **501** | **17,168** | **182,739** |

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

## STATEMENTS OF CHANGES IN EQUITY (Cont'd.)
### FOR THE YEAR ENDED 30 SEPTEMBER 2007

| Company | <-----Attributable to equity holders of the Company------> | | | | | |
|---|---|---|---|---|---|---|
| | Issued and fully paid ordinary shares of <----RM1.00 each----> | | Non-Distributable | | Distributable | |
| | Number of Shares '000 | Nominal Value RM'000 | Treasury Shares RM'000 | Share Premium RM'000 | Retained Profits RM'000 | Total RM'000 |
| At 1 October 2005 | 110,189 | 110,189 | (13,523) | 43,060 | 50,516 | 190,242 |
| Issue of shares - ESOS | 268 | 268 | - | 73 | - | 341 |
| Purchase of treasury shares (Note 25) | - | - | (9,557) | - | - | (9,557) |
| Treasury share transfer fees | - | - | - | (44) | - | (44) |
| Distribution as share dividends | - | - | 10,812 | (10,812) | - | - |
| Net profit for the year | - | - | - | - | 3,405 | 3,405 |
| Dividends (Note 26) | - | - | - | - | (6,852) | (6,852) |
| At 30 September 2006 | **110,457** | **110,457** | **(12,268)** | **32,277** | **47,069** | **177,535** |
| Issue of shares - ESOS | 190 | 190 | - | 51 | - | 241 |
| Purchase of treasury shares (Note 25) | - | - | (6,362) | - | - | (6,362) |
| Treasury share transfer fees | - | - | - | (44) | - | (44) |
| Distribution as share dividends | - | - | 10,437 | (10,437) | - | - |
| Net profit for the year | - | - | - | - | 7,531 | 7,531 |
| Dividends (Note 26) | - | - | - | - | (8,562) | (8,562) |
| At 30 September 2007 | **110,647** | **110,647** | **(8,193)** | **21,847** | **46,038** | **170,339** |

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

# INCOME STATEMENTS
## FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 (restated) | 2007 RM'000 | 2006 RM'000 (restated) |
| Revenue | 27 | **256,872** | 266,201 | **22,321** | 12,594 |
| Other operating income | 28 | **39,885** | 11,046 | **19** | 22 |
| | | **296,757** | 277,247 | **22,340** | 12,616 |
| Changes in inventories | | **(2,222)** | (1,133) | **-** | - |
| Reinsurance | | **(26,340)** | (45,768) | **-** | - |
| Net claims incurred | 29 | **(161,375)** | (155,751) | **-** | - |
| Net commission | | **(22,808)** | (18,614) | **-** | - |
| (Increase)/decrease in unearned premium reserves | 24 | **(16,384)** | 7,549 | **-** | - |
| Staff costs | 30 | **(26,671)** | (25,429) | **(3,964)** | (3,830) |
| Depreciation | | **(2,362)** | (2,877) | **(95)** | (175) |
| Amortisation | 32 | **(213)** | (661) | **(9)** | (9) |
| Other operating expenses | 33 | **(24,556)** | (38,994) | **(6,764)** | (3,959) |
| Operating profit/(loss) | | **13,826** | (4,431) | **11,508** | 4,643 |
| Finance costs | 34 | **(3,035)** | (3,003) | **(2,591)** | (2,454) |
| Profit/(loss) before taxation | 35 | **10,791** | (7,434) | **8,917** | 2,189 |
| Income tax expense | 41 | **(7,555)** | (3,980) | **(1,386)** | 1,216 |
| Net profit/(loss) for the year attributable to equity holders of the Company | | **3,236** | (11,414) | **7,531** | 3,405 |
| Earnings/(loss) per share attributable to equity holders of the Company (sen) | | | | | |
| Basic | 42 | **3.09** | (11.01) | | |
| Diluted | 42 | **3.07** | - | | |
| Dividend per share (sen) 11.25 sen (2006 : 9.25 sen) less tax | 26 | **8.22** | 6.66 | | |

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

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | Note | 2007 RM'000 | 2006 RM'000 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before taxation | | **10,791** | (7,434) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **2,362** | 2,877 |
| Amortisation of premiums, net of accretion of discounts | | **784** | 746 |
| Amortisation of goodwill | | **-** | 379 |
| Amortisation of software distribution licence | | **-** | 75 |
| Amortisation of prepaid land lease payments | | **4** | 4 |
| Amortisation of computer software and other licences | | **209** | 203 |
| (Loss)/gain on disposal of property, plant and equipment | | **(52)** | 386 |
| Property, plant and equipment written off | | **83** | 36 |
| Allowance for/(write back) of diminution in value of investments | | **473** | (1,800) |
| Permanent diminution in value of invesments | | **677** | 6,865 |
| Inventories of consumables written off | | **12** | - |
| Inventories of goods for resale written off | | **12** | 12 |
| Gain on disposal of investments | | **(18,049)** | (8,323) |
| Surplus on return of capital from Killinghall (Malaysia) Berhad ("KMB") | 28 | **(21,095)** | - |
| Dividend income | | **(4,345)** | (11,191) |
| Income from Islamic corporate bonds | | **(1,547)** | (1,284) |
| Interest income | | **(18,082)** | (15,992) |
| Bad debts written off | | **-** | 93 |
| Interest written off | 33 | **239** | 9,684 |
| (Write back of)/allowance for doubtful debts | | **(1,312)** | 426 |
| Short term accumulating compensated absences | | **106** | 3 |
| Increase/(decrease) in unearned premium reserves | | **16,384** | (7,549) |
| Interest expense | | **2,852** | 2,857 |
| Unrealised loss/(gain) on foreign exchange | | **1,214** | (420) |
| Transfer (to)/from property, plant and equipment from/to inventories | | **(213)** | 32 |
| Operating loss before working capital changes | | **(28,493)** | (29,315) |
| Changes in working capital: | | | |
| Proceeds from disposal of investments | | **115,870** | 20,574 |
| Purchase of investments | | **(125,726)** | (5,029) |
| Decrease/(increase) in bankers acceptances | | **9,630** | (89,628) |
| (Increase)/decrease in deposits and placements of the insurance subsidiary company with financial institutions | | **(1,304)** | 64,281 |
| Decrease in loans | | **8,664** | 15,563 |
| (Increase)/decrease in receivables | | **(1,695)** | 2,864 |
| Decrease in inventories - goods for resale | | **16** | 1 |
| Increase in outstanding claims | | **15,650** | 15,951 |
| Decrease in payables | | **(773)** | (410) |
| Cash used in operations | | **(8,161)** | (5,148) |
| Tax refunded/(paid) | | **2** | (7,588) |
| Dividends received | | **2,357** | 7,569 |
| Income received from Islamic corporate bonds | | **1,314** | 1,218 |
| Interest received | | **16,151** | 16,525 |
| Interest paid | | **(2,786)** | (2,655) |
| Net cash generated from operating activities | | **8,877** | 9,921 |

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

# CONSOLIDATED CASH FLOW STATEMENT (Cont'd.)
## FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | Note | 2007<br>RM'000 | 2006<br>RM'000 |
|---|---|---|---|
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 6(c) | **(395)** | (634) |
| Purchase of intangible assets | 10 | **(240)** | (105) |
| Proceeds from disposal of property, plant and equipment | | **3,513** | 85 |
| Net cash generated from/(used in) investing activities | | **2,878** | (654) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of shares | | **241** | 341 |
| Acquisition of treasury shares | | **(6,427)** | (9,584) |
| Payment of transfer fee for treasury shares | | **(43)** | (44) |
| Dividends paid | | **(8,562)** | (6,852) |
| Decrease in hire purchase creditors | | **(466)** | (389) |
| Drawdown of borrowings | | **3,141** | 10,800 |
| Net cash used in financing activities | | **(12,116)** | (5,728) |
| Effects of exchange rate changes on cash and cash equivalents | | **(50)** | 12 |
| Net (decrease)/increase in cash and cash equivalents | | **(411)** | 3,551 |
| Cash and cash equivalents at beginning of year | | **7,640** | 4,023 |
| Cash and cash equivalents at end of year | | **7,229** | 7,574 |
| Cash and cash equivalents comprise the following: | | | |
| Cash and bank balances | | **5,014** | 4,478 |
| Bank overdraft | | **-** | (1,311) |
| Deposits and placements with financial institutions * | | **2,215** | 4,407 |
| Cash and cash equivalents as previously reported | | **7,229** | 7,574 |
| Effect of exchange rate changes | | **-** | 66 |
| Cash and cash equivalents as restated | | **7,229** | 7,640 |

* The deposits and placements with financial institutions relate to those of the Company and the non-insurance subsidiary companies as disclosed in Note 18.

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

# CASH FLOW STATEMENT
## FOR THE YEAR ENDED 30 SEPTEMBER 2007

| | Note | 2007 RM'000 | 2006 RM'000 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | **8,917** | 2,189 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **95** | 175 |
| Allowance for impairment in investment in subsidiary companies | | **1,579** | - |
| Amortisation of computer software and other licences | | **9** | 9 |
| Gain on disposal of property, plant and equipment | | **(12)** | (18) |
| Unrealised loss on foreign exchange | | **908** | 221 |
| Property, plant and equipment written off | | **-** | 6 |
| Short term accumulating compensated absences | | **33** | (9) |
| Dividend income | | **(18,239)** | (8,824) |
| Interest income | | **(729)** | (670) |
| Interest expense | | **2,422** | 2,321 |
| Operating loss before working capital changes | | **(5,017)** | (4,600) |
| Changes in working capital: | | | |
| (Increase)/decrease in receivables | | **(10)** | 31 |
| Increase in due from subsidiary companies | | **(2,592)** | (2,386) |
| Increase/(decrease) in payables | | **89** | (121) |
| Cash used in operations | | **(7,530)** | (7,076) |
| Dividends received | | **12,694** | 8,000 |
| Interest received | | **1,644** | 8,983 |
| Interest paid | | **(2,332)** | (2,107) |
| Tax refunded | | **3,361** | 209 |
| Net cash generated from operating activities | | **7,837** | 8,009 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 6(c) | **(39)** | (88) |
| Proceeds from disposal of property, plant and equipment | | **11** | 36 |
| Net cash used in investing activities | | **(28)** | (52) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of shares | | **241** | 341 |
| Acquisition of treasury shares | | **(6,427)** | (9,584) |
| Payment of transfer fee for treasury shares | | **(44)** | (44) |
| Dividends paid | | **(8,562)** | (6,852) |
| Decrease in hire purchase creditors | | **(82)** | (59) |
| Drawdown of bank borrowings | | **3,500** | 11,800 |
| Net cash used in financing activities | | **(11,374)** | (4,398) |
| Net (decrease)/increase in cash and cash equivalents | | **(3,565)** | 3,559 |
| Cash and cash equivalents at beginning of year | | **3,768** | 209 |
| Cash and cash equivalents at end of year | | **203** | 3,768 |
| Cash and cash equivalents comprise the following: | | | |
| Cash and bank balances | | **203** | 208 |
| Deposits and placements with financial institutions | | **-** | 3,560 |
| | | **203** | 3,768 |

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

# NOTES TO THE FINANCIAL STATEMENTS
## 30 SEPTEMBER 2007

### 1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is a public company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad (Bursa Malaysia). The registered office of the Company is located at the 11th Floor, Wisma Bumi Raya, No. 10, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The principal activities of the Company are that of investment holding and the provision of management services.

The principal activities of the subsidiary companies are as disclosed in Note 13 to the financial statements.

There were no significant changes in the principal activities of the Group and of the Company during the financial year.

The financial statements of the Group and of the Company were authorised for issue on 29 November 2007 pursuant to a resolution by the Board of Directors.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise disclosed in the significant accounting policies. The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRSs") in Malaysia.

At the beginning of the current financial year, the Group and the Company had adopted new and revised FRSs as described fully in Note 3 to the financial statements.

The financial statements of the insurance subsidiary company also comply with the Insurance Act and Regulations, 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia.

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) Subsidiaries and Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less any impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

(ii) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies made up to the end of the financial year. All the subsidiary companies were accounted for using the acquisition method except for Pacific & Orient Insurance Co. Berhad, which was accounted for using the merger method of accounting in accordance with Malaysian Accounting Standards No.2 "Accounting for Acquisitions and Mergers" which was the accounting standard prevailing at that time.

With the introduction of MASB Standard 21 (Financial Reporting Standards - FRS 122) on Business Combinations, the Group had elected to apply the transitional provisions made under this Standard, wherein the Group will conform with the requirements of the Standard prospectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (b) Subsidiaries and Basis of Consolidation (Cont'd.)

(ii) Basis of Consolidation (Cont'd.)

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in the income statement.

Under the merger method of accounting, the results of the subsidiaries are included in the consolidated income statements as if the merger had been effected throughout the current financial year and previous financial years. On consolidation, the difference between the carrying value of the investment and the nominal value of shares issued is transferred to a merger reserve or deficit, as applicable.

### (c) Intangible Assets

(i) Goodwill

Goodwill arising on business combination represents the excess of acquisition cost over the fair value of the net assets of the subsidiary companies at the date of acquisition. Following the initial recognition, goodwill on business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Other 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.

Software Distribution Licence
Software distribution licence is amortised over a period of ten years.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(ii) Other Intangible Assets (Cont'd.)

Computer Software and Other Licences
The useful lives of computer software and other licences are considered to be finite because computer software and licences are susceptible to technological obsolescence.

The acquired computer software and other 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.

Preliminary and Pre-operating Expenses
Preliminary and pre-operating expenses are written off as and when incurred.

**(d) 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 Group 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 income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(h).

Freehold land has an unlimited useful life and therefore is not depreciated. 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% - 20% |
| Furniture, fixtures and fittings | 10% - 20% |

The residual value, 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, if any and the net carrying amount is recognised in the income statements.

**(e) 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 the income statement in the year in which they arise.

2. **SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

(e) **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 Group 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 income statements in the year in which they arise.

(f) **Investments**

(i) Long term quoted and unquoted investments, and investments in subsidiary companies are stated at cost less impairment losses, if any.

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

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.

Government guaranteed bonds, unquoted corporate debt securities and Islamic corporate bonds which carry a minimum rating of "BBB" or "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.

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

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

Other investments are stated at cost.

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

(g) **Receivables**

Receivables are carried at anticipated realisable values.

Known bad debts in the insurance subsidiary company are written off and specific allowances are made for motor premiums including agents balances which remain outstanding for more than thirty days and non-motor premiums including agents, brokers and reinsurers balances which remain outstanding for more than six months from the date on which they become receivable and for all debts which are considered doubtful.

For the Company and other subsidiary companies, specific allowance is made for known doubtful debts which have been individually reviewed and specifically identified as doubtful.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (h) Impairment of Assets

The carrying amounts of assets, other than inventories, 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 goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

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. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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 CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the income statement in the period in which it arises.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill 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 other than goodwill is recognised in the income statement.

### (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) Borrowings

Interest bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs are recognised as an expense in the income statement in the period in which they are incurred.

### (k) Equity

Ordinary shares are recorded at nominal value and proceeds received in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (k) Equity (Cont'd.)

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

The consideration paid, including attributable transaction costs on purchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in the income statements on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

### (l) Provisions

Provisions are recognised when the Group or 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.

### (m) Income Recognition

(i) Interest income on loans is recognised on an accrual basis except where a loan is considered non-performing, in accordance with the terms of the specific loan agreements, 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) Dividends from subsidiary companies and other investments are recognised when the right to receive payment is established.

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

(vi) Revenue from computer projects is recognised on progress billings based on the percentage of completion method determined on the basis of services performed to date as a percentage of total services.

(vii) Revenue relating to sales of hardware and consumer goods are recognised when delivery has taken place and transfer of risks and rewards have been completed.

(viii) Maintenance contracts and other services are recognised upon completion of services rendered.

### (n) General Insurance Underwriting Results

The general insurance underwriting results are determined for each class of business after taking into account reinsurance, unearned premium reserves, 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (n) General Insurance Underwriting Results (Cont'd.)

**Unearned Premium Reserves (UPR)**

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

**Provision for Claims**

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

**Acquisition Cost**

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

### (o) 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 Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

As required by law, the Company and its subsidiary companies in Malaysia make contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the income statement as incurred.

(iii) Equity Compensation Benefits

The Pacific and Orient Berhad Employee Share Options Scheme ("ESOS") is an equity-settled, share-based compensation plan for the employees of the Group.

The total fair value of share options granted to employees is recognised as a compensation expense with a corresponding increase in equity over the vesting periods.

At each balance sheet date, the Group revises its estimates of the number of share 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 over the remaining vesting period.

When the share options are exercised, equity is increased by the amount of the proceeds received.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (p) Foreign Currencies

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated 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 individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are 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 statements for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in a foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in the income statements. Exchange differences arising on monetary items that form part of the Group's net investment in a foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in the income statements for the period. Exchange differences arising on monetary items that form part of the Company's net investment in a foreign operation, regardless of the currency of the monetary item, are recognised in the income statements in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate. Exchange differences arising on the translation of non-monetary items carried at fair value are included in the income statements for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2006 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rate prevailing at the date of acquisition.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (q) 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 rates 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 not recognised if the temporary difference arises from goodwill or negative goodwill or 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 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, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

### (r) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group 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; 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 Group 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 the income statement.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

(ii) Finance Leases – the Group as Lessee (Cont'd.)

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised in the income statement 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(d).

(iii) Operating Leases – the Group 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.

(iv) Operating Leases – the Group as Lessor

Assets leased out under operating leases are presented on the balance sheets according to the nature of the assets. Rental income from operating leases is recognised on an accrual basis (Note 2(m)(ii)). Initial direct costs incurred in negotiating and arranging an operating lease are charged to the income statement.

### (s) Inventories

Inventories are stated at the lower of cost (determined on the first in, first out basis) and net realisable value, after making due allowance for any obsolete items.

### (t) 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 exclude deposits and placements of the insurance subsidiary company with financial institutions. The cash flow statements of the Group and of the Company have been prepared using the indirect method.

### (u) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group 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 Group 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

### (u) Financial Instruments (Cont'd.)

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

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

(a) The significant accounting policies are consistent with those of the audited financial statements of financial year ended 30 September 2006 except for the adoption of the following new/revised FRSs effective for financial year beginning 1 October 2006 as follows :

| | |
|---|---|
| FRS 2 | Share-based Payment |
| FRS 3 | Business Combinations |
| FRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| FRS 101 | Presentation of Financial Statements |
| FRS 102 | Inventories |
| FRS 108 | Accounting Policies, Changes in Estimates and Errors |
| FRS 110 | Events After the Balance Sheet Date |
| FRS 116 | Property, Plant and Equipment |
| FRS 117 | Leases |
| FRS 121 | The Effect of Changes in Foreign Exchange Rates |
| FRS 124 | Related Party Disclosures |
| FRS 127 | Consolidated and Separate Financial Statements |
| FRS 128 | Investments in Associates |
| FRS 131 | Interests in Joint Ventures |
| FRS 132 | Financial Instruments : Disclosure and Presentation |
| FRS 133 | Earnings Per Share |
| FRS 136 | Impairment of Assets |
| FRS 138 | Intangible Assets |
| FRS 140 | Investment Property |

The adoption of the new/revised FRS 5, 102, 108, 110, 116, 121, 124, 127, 132 and 133 did not result in significant changes in the accounting policies of the Group and of the Company whilst FRS 128 and 131 are not applicable.

(b) The principal changes in accounting policies and their effects resulting from the adoption of the new/revised FRSs are as follows:

#### (i) FRS 2: Share-based Payment

This FRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets or equity instruments of the entity.

The Company operates an equity-settled, share-based compensation plan for the employees of the Group, the Pacific and Orient Berhad Employee Share Options Scheme ("ESOS"). Prior to 1 October 2006, no compensation expense relating to share options was recognised in the income statement over the vesting periods. Upon the adoption of FRS 2, the total fair value of share options granted to employees is recognised as a compensation expense with a corresponding increase in equity. At each balance sheet date, the Group revises its estimate of the number of share 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 over the remaining vesting period.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd.)

**(i) FRS 2: Share-based Payment (Cont'd.)**

The transitional provisions of FRS 2 require this FRS to be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. As the existing share options were granted prior to 31 December 2004, the Group applies this change in accounting policy prospectively in accordance with the transitional provisions of FRS 2. Accordingly, the change in accounting policy has no effect on the current and prior periods' financial statements but would have an effect on the financial statements of future periods when new share options are granted under the ESOS.

**(ii) FRS 3: Business Combinations and FRS 136: Impairment of Assets**

The adoption of FRS 3 and FRS 136 has resulted in a change in the accounting policy relating to purchased goodwill.

Prior to 1 October 2006, goodwill arising on consolidation was amortised over a period of twenty-five years or the expected useful life, whichever was the shorter. Goodwill on consolidation was written down for impairment where it was considered necessary.

The adoption of FRS 3 and FRS 136 has resulted in the Group ceasing annual amortisation of goodwill. Goodwill is now carried at cost less accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

In accordance with the transitional provisions of FRS 3, the Group has applied this accounting policy prospectively for business combinations for which the agreement date is on or after 1 January 2006. The carrying amount of goodwill as at 1 October 2006 of RM1,935,000 ceased to be amortised. This has the effect of reducing the amortisation charge by RM109,000 for the year ended 30 September 2007.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported in previous year. The effects on the consolidated balance sheet as at 30 September 2007 and consolidated income statement for the year ended 30 September 2007 are set out in Note 3(d)(i) and Note 3(d)(ii).

**(iii) FRS 101: Presentation of Financial Statements**

Prior to 1 October 2006, investment properties were classified under investments in the consolidated balance sheet. With the adoption of FRS 101, investment properties are now disclosed as a separate line item on the face of the consolidated balance sheet. Accordingly, the comparatives have been restated to conform with the current year's presentation as set out in Note 3(e)(i).

**(iv) FRS 117: Leases**

Prior to 1 October 2006, leasehold land and buildings held for own use were classified as property, plant and equipment and were stated at cost less accumulated depreciation and any impairment losses. The adoption of FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. 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 are considered separately for the purpose of lease classification.

Leasehold land held for own use are now classified as operating leases and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to their relative fair values at the inception of the leases. The up-front payments represent prepaid lease payments and are amortised on a straight-line basis over the lease term.

**3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd.)**

**(iv) FRS 117: Leases (Cont'd.)**

The Group has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 October 2006, the unamortised amount of leasehold land is retained as surrogate carrying amount of prepaid land lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid land lease payments has been accounted for retrospectively as disclosed in Note 3(e)(i). The effects on the consolidated balance sheet as at 30 September 2007 are set out in Note 3(d)(i). Certain comparative amounts as at 30 September 2006 have been restated.

The effects on the consolidated income statement for the year ended 30 September 2007 are set out in Note 3(d)(ii).

**(v) FRS 138: Intangible Assets**

Prior to 1 October 2006, all computer software and licences which are considered to have finite useful lives were classified as property, plant and equipment and were stated at cost less accumulated depreciation and any accumulated impairment losses. Upon the adoption of FRS 138, the computer software that are not an integral part of the related hardware are now reclassified as intangible assets and are stated at cost less accumulated amortisation and any accumulated impairment losses.

The Group has applied the reclassification of such computer software and licences retrospectively and certain comparative amounts have been restated accordingly, to conform with the current year's presentation, as disclosed in Note 3(e)(i). The effects on the balance sheets as at 30 September 2007 and income statements for the year ended 30 September 2007 are set out in Note 3(d)(i) and Note 3(d)(ii) respectively.

**(vi) FRS 140: Investment Property**

Prior to 1 October 2006, investment properties were classified as investments and were stated at cost less any impairment losses and were not depreciated. Investment properties are now disclosed as a separate line item on the face of the consolidated balance sheet with the comparative restated to conform with the current year's presentation as set out in Note 3(e)(i). Where there is a change in use of investment properties to owner-occupied properties, such properties are reclassified to property, plant and equipment.

The Group has adopted the fair value model to measure its investment properties. Under the fair value model, all investment properties are stated at fair values and any gain or loss arising from a change in fair value is recognised in the income statement.

The Group has applied FRS 140 in accordance with the transitional provisions. The change in accounting policy has had no impact on the amounts reported for 30 September 2006 or prior periods. Instead, the change has been accounted for by restating the opening balance of retained profits of the Group as at 1 October 2006 by RM93,000 as set out in Note 3(d)(i).

(c) The Group and the Company have 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 beginning on or after |
|---|---|---|
| FRS 6 | Exploration for and Evaluation of Mineral Resources | 1 January 2007 |
| Amendment to FRS $119_{2004}$ | Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures | 1 January 2007 |

3. **CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd.)**

(c) The Group and the Company have 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 beginning on or after |
|---|---|---|
| Amendment to FRS 121 | The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation | 1 July 2007 |
| FRS 107 | Cash Flow Statements | 1 July 2007 |
| FRS 111 | Construction Contracts | 1 July 2007 |
| FRS 112 | Income Taxes | 1 July 2007 |
| FRS 118 | Revenue | 1 July 2007 |
| FRS 119 | Employee Benefits | 1 July 2007 |
| FRS 120 | Accounting for Government Grants and Disclosure of Government Assistance | 1 July 2007 |
| FRS 126 | Accounting and Reporting by Retirement Benefit Plans | 1 July 2007 |
| FRS 129 | Financial Reporting in Hyperinflationary Economies | 1 July 2007 |
| FRS 134 | Interim Financial Reporting | 1 July 2007 |
| FRS 137 | Provision, Contingent Liabilities and Contingent Assets | 1 July 2007 |
| FRS 139 | Financial Instruments: Recognition and Measurement | Deferred |
| IC Interpretation 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | 1 July 2007 |
| IC Interpretation 2 | Members' Shares in Co-operative Entities and Similar Instruments | 1 July 2007 |
| IC Interpretation 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | 1 July 2007 |
| IC Interpretation 6 | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | 1 July 2007 |
| IC Interpretation 7 | Applying the Restatement Approach under FRS $129_{2004}$ - Financial Reporting in Hyperinflationary Economies | 1 July 2007 |
| IC Interpretation 8 | Scope of FRS 2 | 1 July 2007 |

The adoption of the above is not expected to have any significant effects on the financial statements of the Group upon their initial application except for the following:

**3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd.)**

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

**Amendment to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation**

This amendment requires that where an entity has a monetary item that forms part of its net investment in a foreign operation, the exchange differences arising from such monetary item should always be recognised in equity in the consolidated financial statements and should not be dependent on the currency of the monetary item.

Prior to this amendment, exchange differences arising on a monetary item that form part of the Group's net investment in a foreign operation are recognised in equity in the consolidated financial statements only when that monetary item is denominated either in the functional currency of the reporting entity or the foreign operation.

The Group will apply this amendment from financial periods beginning 1 October 2007. As it is not possible to reasonably estimate the exchange rates applicable to such monetary items for future periods, the Group is unable to determine if the initial adoption will have a material impact on the consolidated financial statements for the financial year ending 30 September 2008.

(d) Summary of effects of adopting new and revised FRSs on the current year's financial statements

The following tables provide estimates of the extent to which each of the line items in the balance sheets and income statements for the year ended 30 September 2007 is higher or lower than it would have been had the previous policies been applied in the current financial year.

(i) Effects on balance sheets as at 30 September 2007

| | Increase/(decrease) | | | | |
|---|---|---|---|---|---|
| **Description of change** | **FRS 3 Note 3(b)(ii) RM'000** | **FRS 117 Note 3(b)(iv) RM'000** | **FRS 138 Note 3(b)(v) RM'000** | **FRS 140 Note 3(b)(vi) RM'000** | **Total RM'000** |
| **Group** | | | | | |
| Property, plant and equipment | - | (338) | (967) | 758 | (547) |
| Investment properties | - | - | - | 585 | 585 |
| Prepaid land lease payments | - | 338 | - | - | 338 |
| Goodwill on consolidation | 109 | - | - | - | 109 |
| Intangible assets | - | - | 967 | - | 967 |
| Investments | - | - | - | (1,436) | (1,436) |
| Retained profits | 109 | - | - | (93) | 16 |
| **Company** | | | | | |
| Property, plant and equipment | - | - | (561) | - | (561) |
| Intangible assets | - | - | 561 | - | 561 |

## 3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd.)

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

(ii) Effects on income statements for the year ended 30 September 2007

| | Increase/(decrease) | | | |
|---|---|---|---|---|
| **Description of change** | **FRS 3 Note 3(b)(ii) RM'000** | **FRS 117 Note 3(b)(iv) RM'000** | **FRS 138 Note 3(b)(v) RM'000** | **Total RM'000** |
| **Group** | | | | |
| Depreciation of property, plant and equipment | - | (4) | (209) | (213) |
| Amortisation of : | | | | |
| - Prepaid land lease payments | - | 4 | - | 4 |
| - Goodwill on consolidation | (109) | - | - | (109) |
| - Intangible assets | - | - | 209 | 209 |
| Profit before taxation | 109 | - | - | 109 |
| Basic earnings per share (sen) | 0.10 | - | - | 0.10 |
| **Company** | | | | |
| Depreciation of property, plant and equipment | - | - | (9) | (9) |
| Amortisation of intangible assets | - | - | 9 | 9 |

(e) Restatement of Comparatives

(i) The following comparative amounts of the Group for 30 September 2006 have been restated as a result of adopting the new and revised FRSs:

| | | Increase/(decrease) | | | |
|---|---|---|---|---|---|
| **Description of change** | **Previously stated RM'000** | **FRS117 Note 3(b)(iv) RM'000** | **FRS 138 Note 3(b)(v) RM'000** | **FRS 140 Note 3(b)(vi) RM'000** | **Restated RM'000** |
| **Balance Sheet** | | | | | |
| **Group** | | | | | |
| Property, plant and equipment | 20,843 | (342) | (939) | - | 19,562 |
| Investment properties | - | - | - | 1,436 | 1,436 |
| Prepaid land lease payments | - | 342 | - | - | 342 |
| Intangible assets | - | - | 939 | - | 939 |
| Investments | 522,774 | - | - | (1,436) | 521,338 |
| **Income Statement** | | | | | |
| **Group** | | | | | |
| Depreciation of property, plant and equipment | 3,084 | (4) | (203) | - | 2,877 |
| Amortisation : | | | | | |
| - prepaid land lease payments | - | 4 | - | - | 4 |
| - intangible assets | 454 | - | 203 | - | 657 |

**3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (Cont'd.)**

(e) Restatement of Comparatives (Cont'd.)

(i) The following comparative amounts of the Group for 30 September 2006 have been restated as a result of adopting the new and revised FRSs: (Cont'd.)

| | | Increase/(decrease) | | |
|---|---|---|---|---|
| **Description of change**<br>**Cash Flow Statement** | **Previously stated RM'000** | **FRS117 Note 3(b)(iv) RM'000** | **FRS 138 Note 3(b)(v) RM'000** | **Restated RM'000** |
| **Group** | | | | |
| Depreciation of property, plant and equipment | 3,084 | (4) | (203) | 2,877 |
| Amortisation : | | | | |
| - prepaid land lease payments | - | 4 | - | 4 |
| - intangible assets | 454 | - | 203 | 657 |

| | | Increase/(decrease) | |
|---|---|---|---|
| **Description of change**<br>**Balance Sheet** | **Previously stated RM'000** | **FRS 138 Note 3(b)(v) RM'000** | **Restated RM'000** |
| **Company** | | | |
| Property, plant and equipment | 597 | (40) | 557 |
| Intangible assets | - | 40 | 40 |
| **Income Statement** | | | |
| **Company** | | | |
| Depreciation of property, plant and equipment | 184 | (9) | 175 |
| Amortisation of intangible assets | - | 9 | 9 |
| **Cash Flow Statement** | | | |
| **Company** | | | |
| Depreciation of property, plant and equipment | 184 | (9) | 175 |
| Amortisation of intangible assets | - | 9 | 9 |

(ii) The following comparative amounts of the Group for 30 September 2006 have been restated to conform to the current financial year's presentation:

| **Description of change**<br>**Balance Sheet** | **Previously stated RM'000** | **Increase/ (decrease) RM'000** | **Restated RM'000** |
|---|---|---|---|
| **Group** | | | |
| Goodwill on consolidation | - | 1,935 | 1,935 |
| Intangible assets | 1,935 | (1,935) | - |

## 4. CHANGES IN ESTIMATES

FRS 116 requires that the residual value and useful life of an item of property, plant and equipment be reviewed at least at the end of each financial year to determine if expectations differ from previous estimates. The Group revised the residual values of certain property, plant and equipment in the current financial year end. The revisions were accounted for prospectively as a change in accounting estimates and as a result, the depreciation charges for the Group and the Company for the current financial year have been reduced by RM370,000 and RM80,000 respectively.

## 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Critical Judgement Made in Applying Accounting Policies

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

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

The Group 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 Group 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.

#### (ii) Impairment of Goodwill

The Group tests whether goodwill has suffered any impairment at least on an annual basis. This requires the estimation of value in use of the assets or cash generating units (CGU) to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The preparation of the estimated future cash flows involves significant judgement and estimations. While the Group believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable amounts and may lead to future impairment charges.

The carrying amount of goodwill as at 30 September 2007 was RM1,935,000. Further details are disclosed in Note 9.

**5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd.)**

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

**(iii) Impairment of Other 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 revisions in estimates and assumptions. This may result in changes to the recoverable amounts of assets and impairment losses.

**(iv) Uncertainty in Accounting Estimates for General Insurance Business**

The principal uncertainty in the general insurance business arises from the claim liabilities. The claim liabilities comprise provision for outstanding claims.

Generally, claim liabilities are determined based upon previous claim 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 estimates 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 provision for Incurred But Not Reported ("IBNR") claims has been computed by an external professional actuary.

**(v) Deferred Tax Assets**

Deferred tax assets are recognised for all unused tax losses, unabsorbed capital allowances, provisions for diminution in value of investment, unearned premium reserves and provision for doubtful debts 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.

The total carrying value of recognised unused tax losses, unabsorbed capital allowances, diminution in value of investment, unearned premium reserves and provision for doubtful debts of the Group was RM18,495,000 (2006: RM27,503,000).

## 6. PROPERTY, PLANT AND EQUIPMENT

**Group**

| 2007 | Freehold land RM'000 | Freehold buildings RM'000 | Leasehold buildings RM'000 | Computer equipment RM'000 | Motor vehicles RM'000 | Office equipment RM'000 | Furniture, fixtures and fittings RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At beginning of year | | | | | | | | |
| As previously stated | 2,780 | 1,477 | 12,972 | 17,752 | 4,575 | 5,917 | 5,407 | 50,880 |
| Effects of adopting FRS 138 (Note 10) | - | - | - | (2,536) | - | (14) | - | (2,550) |
| At beginning of year (restated) | 2,780 | 1,477 | 12,972 | 15,216 | 4,575 | 5,903 | 5,407 | 48,330 |
| Additions | - | - | - | 84 | 310 | 164 | 77 | 635 |
| Disposals | (2,400) | (1,200) | - | (3) | (347) | (29) | (873) | (4,852) |
| Write offs | - | - | - | (194) | (154) | (67) | (54) | (469) |
| Transfer to inventories | - | - | - | 38 | - | 175 | - | 213 |
| Transfer from investment properties (Note 7) | - | 258 | 500 | - | - | - | - | 758 |
| Reclassification | - | - | - | 15 | - | (15) | - | - |
| Translation differences | - | - | - | (86) | 33 | (11) | 21 | (43) |
| At end of year | 380 | 535 | 13,472 | 15,070 | 4,417 | 6,120 | 4,578 | 44,572 |
| **Accumulated Depreciation** | | | | | | | | |
| At beginning of year | | | | | | | | |
| As previously stated | - | 272 | 3,650 | 14,874 | 2,762 | 4,272 | 4,549 | 30,379 |
| Effects of adopting FRS 138 (Note 10) | - | - | - | (1,610) | - | (1) | - | (1,611) |
| At beginning of year (restated) | - | 272 | 3,650 | 13,264 | 2,762 | 4,271 | 4,549 | 28,768 |
| Charge for the year | - | 25 | 320 | 1,028 | 165 | 544 | 280 | 2,362 |
| Disposals | - | (246) | - | (2) | (257) | (13) | (873) | (1,391) |
| Write offs | - | - | - | (174) | (97) | (61) | (53) | (385) |
| Reclassification | - | - | - | 2 | - | (2) | - | - |
| Translation differences | - | - | - | (60) | 16 | 4 | 23 | (17) |
| At end of year | - | 51 | 3,970 | 14,058 | 2,589 | 4,743 | 3,926 | 29,337 |
| **Net Book Value** | | | | | | | | |
| At end of year | 380 | 484 | 9,502 | 1,012 | 1,828 | 1,377 | 652 | 15,235 |

## 6. PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

**Group**

| 2006 | Freehold land RM'000 | Freehold buildings RM'000 | Leasehold buildings RM'000 | Computer equipment RM'000 | Motor vehicles RM'000 | Office equipment RM'000 | Furniture, fixtures and fittings RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At beginning of year | | | | | | | | |
| As previously stated | 2,780 | 1,477 | 12,972 | 21,769 | 4,357 | 5,718 | 5,343 | 54,416 |
| Effects of adopting FRS 138 (Note 10) | - | - | - | (2,432) | - | (14) | - | (2,446) |
| At beginning of year (restated) | 2,780 | 1,477 | 12,972 | 19,337 | 4,357 | 5,704 | 5,343 | 51,970 |
| Additions | - | - | - | 17 | 402 | 431 | 59 | 909 |
| Disposals | - | - | - | (1,103) | (205) | (79) | (2) | (1,389) |
| Write offs | - | - | - | (3,024) | (6) | (130) | (11) | (3,171) |
| Transfer to inventories | - | - | - | - | - | (32) | - | (32) |
| Translation differences | - | - | - | (11) | 27 | 9 | 18 | 43 |
| At end of year (restated) | 2,780 | 1,477 | 12,972 | 15,216 | 4,575 | 5,903 | 5,407 | 48,330 |
| **Accumulated Depreciation** | | | | | | | | |
| At beginning of year | | | | | | | | |
| As previously stated | - | 242 | 3,348 | 17,340 | 2,407 | 3,740 | 4,240 | 31,317 |
| Effects of adopting FRS 138 (Note 10) | - | - | - | (1,407) | - | (1) | - | (1,408) |
| At beginning of year (restated) | - | 242 | 3,348 | 15,933 | 2,407 | 3,739 | 4,240 | 29,909 |
| Charge for the year | - | 30 | 302 | 1,027 | 532 | 689 | 297 | 2,877 |
| Disposals | - | - | - | (682) | (187) | (49) | (1) | (919) |
| Write offs | - | - | - | (3,006) | (2) | (123) | (4) | (3,135) |
| Translation differences | - | - | - | (8) | 12 | 15 | 17 | 36 |
| At end of year (restated) | - | 272 | 3,650 | 13,264 | 2,762 | 4,271 | 4,549 | 28,768 |
| **Net Book Value** | | | | | | | | |
| At end of year | 2,780 | 1,205 | 9,322 | 1,952 | 1,813 | 1,632 | 858 | 19,562 |

## 6. PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

**Company**

| 2007 | Computer equipment RM'000 | Motor vehicles RM'000 | Office equipment RM'000 | Furniture, fixtures and fittings RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning of year | | | | | |
| As previously stated | 444 | 1,700 | 141 | 394 | 2,679 |
| Effects of adopting FRS 138 (Note 10) | (96) | - | - | - | (96) |
| At beginning of year (restated) | 348 | 1,700 | 141 | 394 | 2,583 |
| Additions | 5 | 81 | 13 | - | 99 |
| Disposals | - | (52) | (9) | - | (61) |
| Write offs | - | - | (22) | - | (22) |
| At end of year | 353 | 1,729 | 123 | 394 | 2,599 |
| **Accumulated Depreciation** | | | | | |
| At beginning of year | | | | | |
| As previously stated | 320 | 1,306 | 100 | 356 | 2,082 |
| Effects of adopting FRS 138 (Note 10) | (56) | - | - | - | (56) |
| At beginning of year (restated) | 264 | 1,306 | 100 | 356 | 2,026 |
| Charge for the year | 29 | 32 | 9 | 25 | 95 |
| Disposals | - | (52) | (9) | - | (61) |
| Write offs | - | - | (22) | - | (22) |
| At end of year | 293 | 1,286 | 78 | 381 | 2,038 |
| **Net Book Value** | | | | | |
| At end of year | 60 | 443 | 45 | 13 | 561 |

## 6. PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

**Company**

| 2006 | Computer equipment RM'000 | Motor vehicles RM'000 | Office equipment RM'000 | Furniture, fixtures and fittings RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At beginning of year | | | | | |
| As previously stated | 483 | 1,440 | 152 | 394 | 2,469 |
| Effects of adopting FRS 138 (Note 10) | (96) | - | - | - | (96) |
| At beginning of year (restated) | 387 | 1,440 | 152 | 394 | 2,373 |
| Additions | 7 | 318 | 3 | - | 328 |
| Disposals | (42) | (52) | (7) | - | (101) |
| Write offs | (4) | (6) | (7) | - | (17) |
| At end of year | 348 | 1,700 | 141 | 394 | 2,583 |
| **Accumulated Depreciation** | | | | | |
| At beginning of year | | | | | |
| As previously stated | 300 | 1,270 | 102 | 319 | 1,991 |
| Effects of adopting FRS 138 (Note 10) | (47) | - | - | - | (47) |
| At beginning of year (restated) | 253 | 1,270 | 102 | 319 | 1,944 |
| Charge for the year | 36 | 90 | 12 | 37 | 175 |
| Disposals | (23) | (52) | (7) | - | (82) |
| Write offs | (2) | (2) | (7) | - | (11) |
| At end of year | 264 | 1,306 | 100 | 356 | 2,026 |
| **Net Book Value** | | | | | |
| At end of year | 84 | 394 | 41 | 38 | 557 |

(a) In the previous financial year, certain freehold land and buildings of two subsidiary companies with net book value amounting to RM3,366,000 were pledged to a licensed bank for an overdraft facility granted to one of the said subsidiary companies, as disclosed in Note 23.

(b) The net book value of motor vehicles held under hire purchase agreements are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Motor vehicles | **1,647** | 1,671 | **441** | 391 |

## 6. PROPERTY, PLANT AND EQUIPMENT (Cont'd.)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Cash | **395** | 634 | **39** | 88 |
| Hire purchase | **240** | 275 | **60** | 240 |
| | **635** | 909 | **99** | 328 |

## 7. INVESTMENT PROPERTIES

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| At beginning of year | **1,436** | 1,436 |
| Effect of adopting FRS 140 | | |
| - Adjustment to retained profits (Note 3(d)(i)) | **(93)** | - |
| At beginning of the year (restated) | **1,343** | 1,436 |
| Transfer to property, plant and equipment on change of use (Note 6) | | |
| - Freehold buildings | **(258)** | - |
| - Leasehold buildings | **(500)** | - |
| At end of year | **585** | 1,436 |

Analysed as:

| | | |
|---|---|---|
| Freehold buildings | **365** | 706 |
| Leasehold buildings | **220** | 730 |
| | **585** | 1,436 |

## 8. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Long term leasehold land: | | |
| At beginning of year | **342** | 346 |
| Amortisation (Note 32) | **(4)** | (4) |
| At end of year | **338** | 342 |

## 9. GOODWILL ON CONSOLIDATION

| | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|
| At beginning of year | **1,935** | 2,314 |
| Amortisation | **-** | (379) |
| At end of year | **1,935** | 1,935 |

## 10. INTANGIBLE ASSETS

| Group 2007 | Software Distribution Licence RM'000 | Computer Software and Other Licences RM'000 | Total RM'000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | **2,346** | **2,550** | **4,896** |
| Additions | **-** | **240** | **240** |
| Translation differences | **-** | **(11)** | **(11)** |
| At end of year | **2,346** | **2,779** | **5,125** |
| **Accumulated Amortisation** | | | |
| At beginning of year | **2,346** | **1,611** | **3,957** |
| Amortisation (Note 32) | **-** | **209** | **209** |
| Translation differences | **-** | **(8)** | **(8)** |
| At end of year | **2,346** | **1,812** | **4,158** |
| **Net Book Value** | | | |
| At end of year | **-** | **967** | **967** |

| 2006 | Software Distribution Licence RM'000 | Computer Software and Other Licences RM'000 | Total RM'000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | 2,346 | 2,446 | 4,792 |
| Additions | - | 105 | 105 |
| Translation differences | - | (1) | (1) |
| At end of year | 2,346 | 2,550 | 4,896 |
| **Accumulated Amortisation** | | | |
| At beginning of year | 2,276 | 1,408 | 3,684 |
| Amortisation (Note 32) | 75 | 203 | 278 |
| Translation differences | (5) | - | (5) |
| At end of year | 2,346 | 1,611 | 3,957 |
| **Net Book Value** | | | |
| At end of year | - | 939 | 939 |

## 10. INTANGIBLE ASSETS (Cont'd.)

**Company**

| 2007 | Computer Software and Other Licences RM'000 |
|---|---|
| **Cost** | |
| At beginning and end of year | **96** |
| **Accumulated Amortisation** | |
| At beginning of year | **56** |
| Amortisation (Note 32) | **9** |
| At end of year | **65** |
| **Net Book Value** | |
| At end of year | **31** |
| **2006** | |
| **Cost** | |
| At beginning and end of year | 96 |
| **Accumulated Amortisation** | |
| At beginning of year | 47 |
| Amortisation (Note 32) | 9 |
| At end of year | 56 |
| **Net Book Value** | |
| At end of year | 40 |

## 11. DEFERRED TAX

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| At beginning of year | **27,503** | 26,419 | **1,725** | 724 |
| Transfer to income statements (Note 41) | **(8,924)** | 1,017 | **(1,215)** | 1,001 |
| Translation differences | **(84)** | 67 | **-** | - |
| At end of year | **18,495** | 27,503 | **510** | 1,725 |

## 11. DEFERRED TAX (Cont'd.)

Presented after appropriate offsetting as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Deferred tax assets | **19,369** | 28,581 | **558** | 1,777 |
| Deferred tax liabilities | **(874)** | (1,078) | **(48)** | (52) |
| At end of year | **18,495** | 27,503 | **510** | 1,725 |

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

Deferred Tax Assets of the Group:

| 2007 | Unearned Premium Reserves RM'000 | Allowance for Diminution in Value of Investments RM'000 | Allowance for Doubtful Debts RM'000 | Tax Losses and Unabsorbed Capital Allowances RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At beginning of year | **14** | **6,257** | **309** | **22,001** | **28,581** |
| Recognised in the income statements | **(5)** | **(3,393)** | **(26)** | **(5,704)** | **(9,128)** |
| Arising during the year | **(5)** | **(3,161)** | **(26)** | **(1,188)** | **(4,380)** |
| Arising due to change in tax rate | **-** | **(232)** | **-** | **(473)** | **(705)** |
| Deferred tax assets written off | **-** | **-** | **-** | **(4,043)** | **(4,043)** |
| Translation differences | **-** | **-** | **51** | **(135)** | **(84)** |
| At end of year | **9** | **2,864** | **334** | **16,162** | **19,369** |

| 2006 | Unearned Premium Reserves RM'000 | Allowance for Diminution in Value of Investments RM'000 | Allowance for Doubtful Debts RM'000 | Tax Losses and Unabsorbed Capital Allowances RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| At beginning of year | 11 | 5,320 | 387 | 22,002 | 27,720 |
| Recognised in the income statements | 3 | 937 | (98) | (48) | 794 |
| Arising during the year | 4 | 1,317 | (90) | 1,127 | 2,358 |
| Arising due to change in tax rate | (1) | (380) | (8) | (1,175) | (1,564) |
| Translation differences | - | - | 20 | 47 | 67 |
| At end of year | 14 | 6,257 | 309 | 22,001 | 28,581 |

## 11. DEFERRED TAX (Cont'd.)

Deferred Tax Liabilities of the Group:

| 2007 | Accelerated Capital Allowances RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| At beginning of year | **(915)** | **(163)** | **(1,078)** |
| Recognised in the income statements | **145** | **59** | **204** |
| Arising during the year | **111** | **53** | **164** |
| Arising due to change in tax rate | **34** | **6** | **40** |
| At end of year | **(770)** | **(104)** | **(874)** |

| 2006 | Accelerated Capital Allowances RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| At beginning of year | (1,125) | (176) | (1,301) |
| Recognised in the income statements | 210 | 13 | 223 |
| Arising during the year | 130 | - | 130 |
| Arising due to change in tax rate | 80 | 13 | 93 |
| At end of year | (915) | (163) | (1,078) |

Deferred Tax Assets of the Company:

| 2007 | Tax Losses and Unabsorbed Capital Allowances RM'000 | Total RM'000 |
|---|---|---|
| At beginning of year | **1,777** | **1,777** |
| Recognised in the income statements | **(1,219)** | **(1,219)** |
| Arising during the year | **(1,151)** | **(1,151)** |
| Arising due to change in tax rate | **(68)** | **(68)** |
| At end of year | **558** | **558** |

| 2006 | Tax Losses and Unabsorbed Capital Allowances RM'000 | Total RM'000 |
|---|---|---|
| At beginning of year | 795 | 795 |
| Recognised in the income statements | 982 | 982 |
| Arising during the year | 1,039 | 1,039 |
| Arising due to change in tax rate | (57) | (57) |
| At end of year | 1,777 | 1,777 |

## 11. DEFERRED TAX (Cont'd.)

Deferred Tax Liabilities of the Company:

| **2007** | **Accelerated Capital Allowances RM'000** | **Total RM'000** |
|---|---|---|
| At beginning of year | **(52)** | **(52)** |
| Recognised in the income statements | **4** | **4** |
| Arising during the year | **2** | **2** |
| Arising due to change in tax rate | **2** | **2** |
| At end of year | **(48)** | **(48)** |

| **2006** | **Accelerated Capital Allowances RM'000** | **Total RM'000** |
|---|---|---|
| At beginning of year | (71) | (71) |
| Recognised in the income statements | 19 | 19 |
| Arising during the year | 14 | 14 |
| Arising due to change in tax rate | 5 | 5 |
| At end of year | (52) | (52) |

As at 30 September 2007, deferred tax assets have not been recognised in respect of the following temporary differences:

| | **Group** | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Depreciation and capital allowances on property, plant and equipment | **(50)** | (10) |
| Unabsorbed capital allowances and losses | **19,994** | 4,433 |
| | **19,944** | 4,423 |

The availability of the unused tax losses and unabsorbed capital allowances for offsetting against future taxable profits of the respective subsidiaries are subject to no substantial changes in shareholdings of those subsidiaries under Section 44(5A) and (5B) of the Income Tax Act, 1967.

## 12. INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Cost** | | | | |
| **Long term investment in quoted securities** | | | | |
| Shares in Malaysia | **20,235** | 19,895 | **19,674** | 19,053 |
| Warrant in Malaysia | **132** | 132 | **132** | 132 |
| **Club membership** | **55** | 55 | **-** | - |
| **Investment securities** | | | | |
| Money market instruments: | | | | |
| Malaysian Government Securities | **63,205** | 56,976 | **-** | - |
| Amortisation of premiums | **(1,505)** | (867) | **-** | - |
| | **61,700** | 56,109 | **-** | - |
| Islamic corporate bonds | **30,800** | 20,420 | **-** | - |
| Amortisation of premiums | **(164)** | (227) | **-** | - |
| | **30,636** | 20,193 | **-** | - |
| Bankers acceptances | **246,548** | 256,177 | **-** | - |
| Quoted securities : | | | | |
| Shares in Malaysia | **77,477** | 23,882 | **-** | - |
| Shares outside Malaysia | **4,423** | - | **-** | - |
| Allowance for diminution in value | **(383)** | - | **-** | - |
| | **81,517** | 23,882 | **-** | - |
| Warrants in Malaysia | **289** | 983 | **-** | - |
| Allowance for diminution in value | **(186)** | (95) | **-** | - |
| | **103** | 888 | **-** | - |
| Unit trusts | **8,649** | 6,573 | **-** | - |
| Unquoted securities : | | | | |
| Shares in Malaysia | **280** | 22,696 * | **-** | - |
| Corporate bonds | **-** | 4,700 | **-** | - |
| Accretion of discount | **-** | 156 | **-** | - |
| | **-** | 4,856 | **-** | - |
| Total investment securities | **429,433** | 391,374 | **-** | - |
| **Deposits and placements of the insurance subsidiary company with licensed banks** | **111,187** | 109,882 | **-** | - |
| Total investments | **561,042** | 521,338 | **19,806** | 19,185 |

### 12. INVESTMENTS (Cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| **Market value** | | | | |
| Club membership | **60** | 60 | **-** | - |
| Long term investment in quoted securities: | | | | |
| Shares in Malaysia | **20,866** | 12,151 | **20,539** | 11,591 |
| Warrant in Malaysia | **1,756** | 530 | **1,756** | 530 |
| Investment securities: | | | | |
| Malaysian Government Securities | **62,143** | 56,062 | **-** | - |
| Islamic corporate bonds | **30,963** | 20,800 | **-** | - |
| Shares quoted in Malaysia | **79,096** | 24,592 | **-** | - |
| Shares quoted outside Malaysia | **6,895** | - | **-** | - |
| Warrants quoted in Malaysia | **103** | 888 | **-** | - |
| Unit trusts | **9,468** | 6,624 | **-** | - |
| Unquoted shares in Malaysia | **349** | 43,671 | **-** | - |
| Unquoted corporate bonds | **-** | 4,907 | **-** | - |

Deposits and placements of the Group amounting to RM237,000 (2006 : RM232,000) represent deposits given by the insureds as collateral for bond guarantees granted by the insurance subsidiary company to third parties.

* This relates to shares in KMB, an investee company held by the Group's insurance subsidiary company, which was delisted from the Official List of Bursa Malaysia Securities Berhad on 29 August 2006 and was placed under a members' voluntary liquidation on 26 September 2006 pursuant to Section 254(1)(b) of the Malaysian Companies Act, 1965. The cost of investment of RM22,696,000 had been fully recovered by the Group during the financial year as disclosed in Note 28.

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 dates (whichever is earlier) | | | |
|---|---|---|---|---|
| **Group** | **Less than 1 year RM'000** | **1 year to 5 years RM'000** | **Total carrying amount RM'000** | **Range of effective interest rates per annum %** |
| **2007** | | | | |
| Malaysian Government Securities | **21,494** | **40,206** | **61,700** | **3.15 - 4.65** |
| Bankers acceptances | **246,548** | **-** | **246,548** | **3.57 - 3.66** |
| Deposits and placements of the insurance subsidiary company with licensed banks | **111,187** | **-** | **111,187** | **3.00 - 4.10** |
| | **379,229** | **40,206** | **419,435** | |

### 12. INVESTMENTS (Cont'd.)

| Group | Contractual repricing or maturity dates (whichever is earlier) Less than 1 year RM'000 | 1 year to 5 years RM'000 | Total carrying amount RM'000 | Range of effective interest rates per annum % |
|---|---|---|---|---|
| **2006** | | | | |
| Malaysian Government Securities | 5,002 | 51,107 | 56,109 | 3.15 - 6.51 |
| Bankers acceptances | 256,177 | - | 256,177 | 3.70 - 4.10 |
| Unquoted corporate bonds | - | 4,856 | 4,856 | 6.42 |
| Deposits and placements of the insurance subsidiary company with licensed banks | 109,882 | - | 109,882 | 2.55 - 4.42 |
| | 371,061 | 55,963 | 427,024 | |

The effective profit rate of the Islamic corporate bonds as at balance sheet date was between 4.45% and 8.00% (2006 : 4.45% and 8.15%) per annum.

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

| | Group 2007 RM'000 | 2006 RM'000 |
|---|---|---|
| 1 year to 5 years | **30,636** | 20,193 |

### 13. INVESTMENT IN SUBSIDIARY COMPANIES

| | Company 2007 RM'000 | 2006 RM'000 |
|---|---|---|
| Unquoted shares - at cost | **138,366** | 121,366 |
| Impairment losses | **(6,304)** | (4,725) |
| | **132,062** | 116,641 |

## 13. INVESTMENT IN SUBSIDIARY COMPANIES (Cont'd.)

The subsidiary companies are:

| | Effective Interests | | |
|---|---|---|---|
| **Incorporated in Malaysia** | **2007 %** | **2006 %** | **Principal Activities** |
| Pacific & Orient Insurance Co. Berhad | **100** | 100 | General insurance business |
| P & O Technologies Sdn. Bhd. | **100** | 100 | Provision of information technology services and sale of information technology equipment |
| Pacific & Orient Distribution Sdn. Bhd. | **100** | 100 | Distribution of consumer goods and provision of sales and administrative services |
| P & O Capital Sdn. Bhd. | **100** | 100 | Money lending |
| P & O Global Technologies Sdn. Bhd. | **100** | 100 | Dealing in computer hardware, software and systems |
| P & O Resources Sdn. Bhd. | **100** | 100 | Dealing in computer hardware, software and systems |
| Dynamic Network Distributions Sdn. Bhd. | **100** | 100 | Provision of management and privilege card programme services and sale of consumer goods |
| P & O Nominees Services (Tempatan) Sdn. Bhd. | **100** | 100 | Dormant |
| Pacific Global Technologies Sdn. Bhd. | **100** | 100 | Dormant |
| Seni Perkasa Sdn. Bhd. | **100** | 100 | Dormant |
| Seni Bayu Sdn. Bhd. | **100** | 100 | Dormant |
| Pacific & Orient - F.I.H. Sdn. Bhd. | **100** | 100 | Dormant |
| DND Consulting Services Sdn. Bhd. | **100** | 100 | Dormant |
| **Incorporated in the United States of America** | | | |
| P & O Global Technologies, Inc. * | **100** | 100 | Information technology services, research and development and trading activities |
| **Subsidiary company of P & O Global Technologies Sdn. Bhd. - Incorporated in Thailand** | | | |
| P & O Global Technologies (Thailand) Co. Ltd.* | **100** | 100 | Dealing in computer software and systems |

* Subsidiary companies not audited by Ernst & Young.

## 14. INVENTORIES – GOODS FOR RESALE

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Inventories - at cost | **2,852** | 2,868 |
| Allowance for inventory obsolescence | **(26)** | (26) |
| | **2,826** | 2,842 |

## 15. LOANS

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Loans: | | |
| - secured loans | **13,296** | 22,236 |
| - unsecured loans | **120** | 16 |
| | **13,416** | 22,252 |
| Due within one year | **12,565** | 21,959 |
| Due after one year | **851** | 293 |
| | **13,416** | 22,252 |

The interest rates on loans were between 6.80% and 10.50% (2006: 6.80% and 9.75%) per annum.

## 16. RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Trade receivables: | | | | |
| Outstanding premiums including agents', brokers' and co-insurers' balances* | **8,581** | 6,280 | **-** | - |
| Due from reinsurers and ceding companies | **2,063** | 3,249 | **-** | - |
| Others | **2,581** | 1,823 | **-** | - |
| | **13,225** | 11,352 | **-** | - |
| Allowance for doubtful debts | **(2,473)** | (4,228) | **-** | - |
| | **10,752** | 7,124 | **-** | - |
| Other receivables: | | | | |
| Accrued income | **5,077** | 3,697 | **-** | 3 |
| Share of assets held by Malaysian Motor Insurance Pool (MMIP) | **2,485** | 2,455 | **-** | - |
| Deposits and prepayments | **1,995** | 2,140 | **60** | 62 |
| Tax recoverable | **6,886** | 4,476 | **2,400** | 1,008 |
| Others | **880** | 709 | **213** | 200 |
| | **17,323** | 13,477 | **2,673** | 1,273 |

## 16. RECEIVABLES (Cont'd.)

* Includes an amount of RM25,000 (2006: RM28,000) due from a company in which a director has deemed interest.

The currency exposure profile of trade and other receivables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ringgit Malaysia | **26,542** | 19,604 | **2,673** | 1,273 |
| United States Dollars | **132** | 134 | **-** | - |
| Thai Baht | **1,401** | 863 | **-** | - |
| | **28,075** | 20,601 | **2,673** | 1,273 |

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

## 17. DUE FROM SUBSIDIARY COMPANIES

The amounts due from subsidiary companies are interest-free, unsecured and have no fixed terms of repayment, except for an amount of RM8,086,000 (2006 : RM16,196,000) which bears interest at between 6.00% and 10.25% (2006 : 6.00% and 10.00%) per annum.

The currency exposure profile of the amounts due from subsidiary companies was as follows:

| | Company | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Ringgit Malaysia | **47,546** | 65,019 |
| United States Dollars | **12,809** | 11,564 |
| | **60,355** | 76,583 |

## 18. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Licensed banks | **2,215** | 847 | **-** | - |
| Other licensed finance companies | **-** | 3,560 | **-** | 3,560 |
| | **2,215** | 4,407 | **-** | 3,560 |

The deposits of RM1,798,000 (2006: Nil) for the Group have been pledged as securities for credit facilities granted to the Group.

The deposits and placements of the insurance subsidiary company are included as investments under Note 12.

## 18. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS (Cont'd.)

The currency exposure profile of deposits and placements with financial institutions was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ringgit Malaysia | **1,706** | 3,573 | **-** | 3,560 |
| United States Dollars | **82** | 87 | **-** | - |
| Thai Baht | **427** | 747 | **-** | - |
| | **2,215** | 4,407 | **-** | 3,560 |

The range of effective interest rates per annum of deposits and placements with financial institutions at the balance sheet date was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 % | 2006 % | 2007 % | 2006 % |
| Licensed banks | **0.25 – 4.88** | 0.25 – 4.42 | **-** | - |
| Other licensed finance companies | **-** | 3.25 – 3.41 | **-** | 3.25 – 3.41 |

The maturity profile of deposits and placements with financial institutions at the balance sheet date was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 Days | 2006 Days | 2007 Days | 2006 Days |
| Licensed banks | **1 – 365** | 1 – 365 | **-** | - |
| Other licensed finance companies | **-** | 30 | **-** | 30 |

## 19. CASH AND BANK BALANCES

The currency exposure profile of cash and bank balances was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ringgit Malaysia | **4,474** | 4,273 | **203** | 208 |
| United States Dollars | **130** | 90 | **-** | - |
| Thai Baht | **410** | 115 | **-** | - |
| | **5,014** | 4,478 | **203** | 208 |

## 20. PROVISION FOR OUTSTANDING CLAIMS

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Provision for outstanding claims | **327,573** | 314,186 |
| Recoverable from reinsurers | **(34,990)** | (37,253) |
| Net outstanding claims | **292,583** | 276,933 |

Included in the provision for outstanding claims is an amount of RM111,906,000 (2006 : RM98,837,000) in respect of net provision for Incurred But Not Reported (IBNR) claims as determined by an independent professional actuary.

## 21. PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Trade payables: | | | | |
| Due to reinsurers and ceding companies | **2,920** | 5,452 | **-** | - |
| Due to agents, brokers, co-insurers and insureds | **2,645** | 1,172 | **-** | - |
| Others | **37** | 101 | **-** | - |
| | **5,602** | 6,725 | **-** | - |
| Other payables: | | | | |
| Accruals | **2,142** | 1,854 | **817** | 641 |
| Short term accumulating compensated absences | **698** | 585 | **160** | 126 |
| Collateral deposits | **249** | 247 | **-** | - |
| Insurance Guarantee Scheme Fund (IGSF) levy | **582** | 601 | **-** | - |
| Stamp duty payable | **835** | 685 | **-** | - |
| Unearned income | **409** | 421 | **-** | - |
| Due to directors | **360** | 360 | **215** | 215 |
| Service tax payable | **244** | 230 | **-** | - |
| Unclaimed monies | **180** | 177 | **-** | - |
| Refund premiums | **127** | 170 | **-** | - |
| Others | **1,543** | 437 | **2** | 65 |
| | **7,369** | 5,767 | **1,194** | 1,047 |

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

The amount payable to directors are unsecured, interest free and with no fixed terms of repayment.

## 21. PAYABLES (Cont'd.)

The currency exposure profile of trade and other payables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Ringgit Malaysia | **12,551** | 12,092 | **1,194** | 1,047 |
| United States Dollars | **44** | 49 | **-** | - |
| Thai Baht | **376** | 351 | **-** | - |
| | **12,971** | 12,492 | **1,194** | 1,047 |

## 22. HIRE PURCHASE CREDITORS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Future minimum payments are as follows: | | | | |
| Not later than 1 year | **482** | 485 | **105** | 90 |
| Later than 1 year and not later than 2 years | **586** | 835 | **164** | 143 |
| Later than 2 years and not later than 5 years | **71** | 87 | **18** | 85 |
| Total future minimum lease payments | **1,139** | 1,407 | **287** | 318 |
| Less : Future finance charges | **(80)** | (122) | **(19)** | (28) |
| Present value of hire purchase creditors | **1,059** | 1,285 | **268** | 290 |

Analysis of present value of hire purchase creditors :

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Not later than 1 year | **434** | 421 | **94** | 77 |
| Later than 1 year and not later than 2 years | **556** | 794 | **156** | 143 |
| Later than 2 years and not later than 5 years | **69** | 70 | **18** | 70 |
| | **1,059** | 1,285 | **268** | 290 |
| Amount due within 12 months | **(434)** | (421) | **(94)** | (77) |
| Amount due after 12 months | **625** | 864 | **174** | 213 |

The hire purchase agreements at the balance sheet date bore interest between 2.62% and 6.32% (2006 : 2.62% and 5.21%) per annum.

## 23. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Bank overdraft | **-** | 1,311 | **-** | - |
| Revolving credits | **47,650** | 45,650 | **44,400** | 40,900 |
| | **47,650** | 46,961 | **44,400** | 40,900 |

The bank overdraft in the previous financial year was secured by certain freehold land and buildings of two subsidiary companies as disclosed in Note 6(a) and bore interest at 8.50% per annum.

The revolving credit facilities of the Company are unsecured and bear interest at between 5.44% and 6.30% (2006 : 4.48% and 6.30%) per annum. The revolving credit facilities of subsidiary companies are secured by a deposit of a subsidiary company of RM500,000 and corporate guarantees from the holding company. The revolving credit facilities bear interest at between 5.55% and 8.75% (2006 : 5.45% and 8.75%) per annum.

The borrowings of the Group and of the Company are due to mature within 1 year.

## 24. UNEARNED PREMIUM RESERVES

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| At beginning of year | **96,757** | 104,306 |
| Increase/(decrease) in unearned premium reserves (Note 36) | **16,384** | (7,549) |
| At end of year | **113,141** | 96,757 |

## 25. SHARE CAPITAL

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | 2007 '000 | 2006 '000 | 2007 RM'000 | 2006 RM'000 |
| Authorised shares of RM1.00 each | **200,000** | 200,000 | **200,000** | 200,000 |
| Issued and fully paid ordinary shares of RM1.00 each | | | | |
| At beginning of year | **110,457** | 110,189 | **110,457** | 110,189 |
| Issue of shares: | | | | |
| - ESOS (Note (a)) | **190** | 268 | **190** | 268 |
| At end of year | **110,647** | 110,457 | **110,647** | 110,457 |

### (a) ESOS

On 16 December 2002, approval of the ESOS was obtained from the Securities Commission (SC). The ESOS was implemented on 16 January 2003.

The Board of Directors had, on 27 August 2007, approved the extension of the ESOS for another three (3) years to expire on 15 January 2011.

## 25. SHARE CAPITAL (Cont'd.)

### (a) ESOS (Cont'd.)

The main features of the ESOS are as follows:

(a) The ESOS shall be in force for an initial period of five years in accordance with the requirements of the SC subject however to renewal for period(s) of up to a maximum of five years to be determined by the Board upon the recommendation by the ESOS Committee.

(b) The maximum number of new ordinary shares of RM1.00 each (Shares) to be offered under the ESOS shall not be more than 10% of the issued and paid-up share capital or such percentage of the issued and paid-up share capital of the Company as may be permitted by the SC from time to time during the duration of the ESOS.

(c) The Executive Directors involved in the day-to-day management and/or employees who are on the payroll of the Company and its subsidiary companies and have completed at least one year of continuous employment and who fulfil the conditions set out in the Bye-Laws of the ESOS shall be eligible to participate in the ESOS.

(d) No option shall be granted for less than 1,000 Shares nor more than 900,000 Shares to any eligible employee.

(e) The subscription price for each new Share issued under the ESOS shall be based on the weighted average market price of the Shares as shown in the daily official list issued by Bursa Malaysia for the five market days immediately preceding the date of offer subject to a discount of not more than 10%, or at the par value of the Shares, whichever is higher.

(f) An eligible employee can only participate in one ESOS implemented by any company within the Group.

### (b) Treasury Shares

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | **'000** | **'000** | **RM'000** | **RM'000** |
| At beginning of year | **6,828** | 7,245 | **12,268** | 13,523 |
| Purchased | **3,967** | 5,431 | **6,362** | 9,557 |
| Distributed as share dividends | **(5,916)** | (5,848) | **(10,437)** | (10,812) |
| At end of year | **4,879** | 6,828 | **8,193** | 12,268 |

This amount relates to the acquisition cost of treasury shares.

The shareholders of the Company, by a special resolution passed at a general meeting held on 14 March 2007, renewed their approval of the Company's plan to purchase its own ordinary shares.

During the financial year, the Company purchased 3,967,000 (2006: 5,431,000) of its issued ordinary shares of RM1.00 each fully paid from the open market at an average price of RM1.60 (2006: RM1.76) per share for a total consideration of RM6,362,000 (2006: RM9,557,000). The purchase transactions were financed by internally generated funds. These shares are held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

On 16 January 2007, a total of 2,936,852 treasury shares valued at RM5,224,000 were distributed as share dividends to the shareholders on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 4 January 2007.

On 26 June 2007, a total of 2,978,786 treasury shares valued at RM5,213,000 were distributed as share dividends to the shareholders on the basis of 1 treasury share for every 35 existing fully paid ordinary shares of RM1.00 each, held on 13 June 2007.

## 25. SHARE CAPITAL (Cont'd.)

### (b) Treasury Shares (Cont'd.)

Of the total 110,647,000 (2006: 110,457,000) issued and fully paid ordinary shares as at 30 September 2007, 4,879,000 (2006: 6,828,000) are held as treasury shares by the Company. As at 30 September 2007, the number of outstanding ordinary shares in issue and fully paid is therefore 105,768,000 (2006:103,629,000) ordinary shares of RM1.00 each.

The details of the shares purchased/(distributed) during the financial year are as follows:

| Month | Price per share (RM) | | | Number of shares purchased/ (distributed) ('000) | Total consideration RM'000 |
|---|---|---|---|---|---|
| | Lowest | Highest | Average | | |
| October 2006 | 1.62 | 1.66 | 1.65 | 543 | 897 |
| November 2006 | 1.61 | 1.65 | 1.64 | 195 | 320 |
| December 2006 | 1.57 | 1.63 | 1.61 | 172 | 278 |
| January 2007 | 1.59 | 1.63 | 1.62 | 153 | 247 |
| February 2007 | 1.60 | 1.74 | 1.69 | 115 | 194 |
| March 2007 | 1.56 | 1.75 | 1.68 | 426 | 717 |
| April 2007 | 1.60 | 1.69 | 1.67 | 564 | 941 |
| May 2007 | 1.55 | 1.67 | 1.63 | 300 | 491 |
| June 2007 | 1.57 | 1.62 | 1.61 | 39 | 62 |
| July 2007 | 1.45 | 1.61 | 1.52 | 1,460 | 2,215 |
| August 2007 | - | - | - | - | - |
| September 2007 | - | - | - | - | - |
| | | | | 3,967 | 6,362 |
| January 2007 | | | 1.78 | (2,937) | (5,224) |
| June 2007 | | | 1.75 | (2,979) | (5,213) |
| | | | | (1,949) | (4,075) |

There was no sale or cancellation of treasury shares during the financial year.

## 26. DIVIDENDS

| | Group/Company | | Net Dividend Per Share | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 Sen | 2006 Sen |
| 2nd interim dividend of 3.75 sen per share less tax at 28% in respect of previous year, declared on 22 November 2005 and paid on 22 December 2005 | **-** | 2,767 | **-** | 2.70 |
| 3rd interim dividend of 3.75 sen per share less tax at 27% in respect of previous year declared on 23 November 2006 and paid on 22 December 2006 (2005 : Nil) | **2,818** | - | **2.74** | - |

## 26. DIVIDENDS (Cont'd.)

| | Group/Company | | Net Dividend Per Share | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 Sen** | **2006 Sen** |
| 1st interim dividend of 3.75 sen per share less tax at 27% in respect of current financial year, declared on 29 January 2007 and paid on 28 February 2007 (2006 : 3.75 sen per share less tax at 28%) | **2,890** | 2,768 | **2.74** | 2.70 |
| 2nd interim dividend of 3.75 sen per share less tax at 27% in respect of current financial year, declared on 28 May 2007 and paid on 26 June 2007 (2006: 1.75 sen per share less tax at 28%) | **2,854** | 1,317 | **2.74** | 1.26 |
| | **8,562** | 6,852 | **8.22** | 6.66 |

All dividends of the Company are paid on the issued shares (net of treasury shares).

In respect of the financial year ended 30 September 2007, the Directors had on 22 November 2007 declared a 3rd interim dividend of 3.75 sen per share less tax at 26%, estimated at RM2,395,000 based on the issued and paid-up share capital (net of treasury shares) as at 30 September 2007. The dividend will be paid on 19 December 2007 to depositors whose names appear in the Record of Depositors on 10 December 2007. This dividend has not been reflected in the financial statements for the current financial year but it will be accounted for in equity as an appropriation of retained profits for the financial year ending 30 September 2008.

## 27. REVENUE

Revenue of the Group represents gross premium and investment income (inclusive of amortisation of premiums, net of accretion of discounts) of the insurance subsidiary company, sales of goods and services, interest income on loans granted and investment income of the Company. Revenue of the Company represents interest income on advances to subsidiary companies, investment income and fees for the provision of management services.

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Gross premium (Note 36) | **228,122** | 234,372 | **-** | - |
| Gross dividends : | | | | |
| - shares quoted in Malaysia | **4,192** | 4,093 | **1,801** | 824 |
| - shares unquoted in Malaysia | **-** | 6,857 | **-** | - |
| - unit trusts | **153** | 241 | **-** | - |
| - subsidiary company | **-** | - | **16,438** | 8,000 |
| Interest income : | | | | |
| - subsidiary companies | **-** | - | **707** | 654 |
| - others | **18,042** | 15,976 | **22** | 16 |
| Income from Islamic corporate bonds | **1,547** | 1,284 | **-** | - |
| Rental income from investment properties | **12** | 12 | **-** | - |
| MMIP investment income | **104** | 91 | **-** | - |
| Other investment income | **16** | - | **-** | - |
| Amortisation of premiums, net of accretion of discounts | **(784)** | (746) | **-** | - |
| Sale of goods and services | **5,468** | 4,021 | **3,353** | 3,100 |
| | **256,872** | 266,201 | **22,321** | 12,594 |

## 28. OTHER OPERATING INCOME

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Interest income | **40** | 16 | **-** | - |
| Rental income | **57** | 77 | **-** | - |
| Write back of allowance for diminution in value of investments | **-** | 1,800 | **-** | - |
| Gain on disposal of property, plant and equipment | **52** | - | **12** | 18 |
| Gain on disposal of investments | **18,049** | 8,323 | **-** | - |
| Unrealised gain on foreign exchange | **-** | 420 | **-** | - |
| Surplus on return of capital from KMB* | **21,095** | - | **-** | - |
| Others | **592** | 410 | **7** | 4 |
| | **39,885** | 11,046 | **19** | 22 |

* During the financial year, the Group received a total amount of RM43,791,000, being proceeds from the first and second distribution of surplus assets by the liquidators of KMB resulting in a full recovery of the cost of investment totalling RM22,696,000 (Note 12) and a surplus of RM21,095,000.

## 29. NET CLAIMS INCURRED

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Gross claims paid less salvage | **155,894** | 152,043 |
| Reinsurance recoveries | **(10,169)** | (12,243) |
| Net claims paid | **145,725** | 139,800 |
| Net outstanding claims: | | |
| At end of year | **292,583** | 276,933 |
| At beginning of year | **(276,933)** | (260,982) |
| | **161,375** | 155,751 |

## 30. STAFF COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Salaries, wages and bonus | **21,889** | 21,012 | **3,163** | 3,114 |
| Short term accumulating compensated absences | **106** | 3 | **33** | (9) |
| Pension cost – defined contribution plan | **2,450** | 2,364 | **372** | 368 |
| Other staff related expenses | **2,226** | 2,050 | **396** | 357 |
| | **26,671** | 25,429 | **3,964** | 3,830 |

Included in staff costs of the Group and of the Company are executive directors' remuneration amounting to RM1,804,000 (2006: RM1,706,000) and RM605,000 (2006: RM605,000) respectively.

## 31. DIRECTORS' REMUNERATION

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Directors of the Company | | | | |
| **Executive:** | | | | |
| Salaries and other remuneration | **380** | 380 | **360** | 360 |
| Bonus | **60** | 60 | **60** | 60 |
| Pension cost – defined contribution plan | **65** | 65 | **65** | 65 |
| Benefits-in-kind | **33** | 24 | **33** | 24 |
| Allowance | **120** | 120 | **120** | 120 |
| | **658** | 649 | **638** | 629 |
| **Non-Executive:** | | | | |
| Fees | **245** | 245 | **155** | 155 |
| | **245** | 245 | **155** | 155 |
| Directors of Subsidiary Companies | | | | |
| **Executive:** | | | | |
| Salaries and other remuneration | **916** | 849 | **-** | - |
| Bonus | **96** | 83 | **-** | - |
| Short term accumulating compensated absences | **13** | 1 | **-** | - |
| Pension cost – defined contribution plan | **100** | 94 | **-** | - |
| Benefits-in-kind | **56** | 56 | **-** | - |
| Allowances | **54** | 54 | **-** | - |
| | **1,235** | 1,137 | **-** | - |
| **Non-Executive:** | | | | |
| Fees | **41** | 59 | **-** | - |
| Total | **2,179** | 2,090 | **793** | 784 |
| Analysis excluding benefits-in-kind: | | | | |
| Total executive directors' remuneration (Note 30) | **1,804** | 1,706 | **605** | 605 |
| Total non-executive directors' remuneration (Note 33) | **286** | 304 | **155** | 155 |
| Total directors' remuneration excluding benefits-in-kind | **2,090** | 2,010 | **760** | 760 |

## 32. AMORTISATION

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Amortisation of: | | | | |
| - goodwill on consolidation | **-** | 379 | **-** | - |
| - intangible assets (Note 10) | **209** | 278 | **9** | 9 |
| - prepaid land lease payments (Note 8) | **4** | 4 | **-** | - |
| | **213** | 661 | **9** | 9 |

## 33. OTHER OPERATING EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Other operating expenses include: | | | | |
| Auditors' remuneration | **194** | 169 | **30** | 21 |
| Non-executive directors' remuneration (Note 31) | **286** | 304 | **155** | 155 |
| Property, plant and equipment written off | **83** | 36 | **-** | 6 |
| Inventories written off: | | | | |
| - consumables | **12** | - | **-** | - |
| - goods for resale | **12** | 12 | **-** | - |
| Allowance for diminution in value of investments | **473** | - | **-** | - |
| Permanent diminution in value of invesments | **677** | 6,865 | **-** | - |
| Rental of office equipment | **2,424** | 2,192 | **161** | 149 |
| Bad debts : | | | | |
| - recovered | **(69)** | (242) | **-** | - |
| - written off | **-** | 93 | **-** | - |
| Interest written off * | **239** | 9,684 | **-** | - |
| Office rental: | | | | |
| - subsidiary company | **-** | - | **264** | 264 |
| - others | **1,434** | 1,446 | **-** | - |
| Loss on foreign exchange: | | | | |
| - unrealised | **1,214** | - | **908** | 221 |
| - realised | **21** | 21 | **-** | - |
| Loss on disposal of property, plant and equipment | **-** | 386 | **-** | - |
| (Write back of)/allowance for doubtful debts | **(1,312)** | 426 | **-** | - |
| Allowance for impairment in investment in subsidiary companies | **-** | - | **1,579** | - |

* This represents interest written off from a negotiated settlement of an amount due from an unrelated corporation.

## 34. FINANCE COSTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Interest expense | **2,852** | 2,857 | **2,422** | 2,321 |
| Others | **183** | 146 | **169** | 133 |
| | **3,035** | 3,003 | **2,591** | 2,454 |

## 35. PROFIT/(LOSS) BEFORE TAXATION

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Determined as follows: | | | | | |
| Insurance subsidiary company | 36 | **27,283** | 18,500 | **-** | - |
| Others | | **(1,385)** | (17,426) | **8,917** | 2,189 |
| Before consolidation | | **25,898** | 1,074 | **8,917** | 2,189 |
| Consolidation adjustments | | **(15,107)** | (8,508) | **-** | - |
| After consolidation | | **10,791** | (7,434) | **8,917** | 2,189 |

## 36. PROFIT BEFORE TAXATION - INSURANCE SUBSIDIARY COMPANY

**Revenue Account**

| | | Group | |
|---|---|---|---|
| | Note | 2007 RM'000 | 2006 RM'000 |
| **Insurance fund** | | | |
| Gross premium | 27 | **228,122** | 234,372 |
| Reinsurance | | **(26,340)** | (45,768) |
| Net premium | | **201,782** | 188,604 |
| (Increase)/decrease in unearned premium reserves | 24 | **(16,384)** | 7,549 |
| Earned premium | | **185,398** | 196,153 |
| Net claims incurred | 29 | **(161,375)** | (155,751) |
| Net commission | | **(22,808)** | (18,614) |
| | | **(184,183)** | (174,365) |
| Underwriting surplus before management expenses | | **1,215** | 21,788 |
| Management expenses | 38 | **(32,956)** | (33,028) |
| Underwriting deficit | | **(31,741)** | (11,240) |
| Investment income | 37 | **20,032** | 25,700 |
| Other operating income - net | 40 | **38,432** | 3,575 |
| Profit from operations | | **26,723** | 18,035 |
| Finance costs | | **(47)** | (59) |
| Surplus from insurance fund | | **26,676** | 17,976 |
| **Shareholder's fund** | | | |
| Investment income | 37 | **612** | 529 |
| Management expenses | 38 | **(5)** | (5) |
| | | **27,283** | 18,500 |

## 37. INVESTMENT INCOME

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| **Insurance fund** | | |
| Gross dividends: | | |
| - shares quoted in Malaysia | **2,391** | 3,269 |
| - shares unquoted in Malaysia | **-** | 6,857 |
| - unit trusts | **153** | 241 |
| Interest income: | | |
| - Malaysian Government Securities | **2,880** | 2,875 |
| - bankers acceptances | **8,246** | 6,843 |
| - corporate bonds | **151** | 420 |
| - deposits and placements with financial institutions | **5,047** | 4,285 |
| Income from Islamic corporate bonds | **1,547** | 1,284 |
| Rental income from investment properties | **281** | 281 |
| MMIP investment income | **104** | 91 |
| Other investment income | **16** | - |
| Amortisation of premiums, net of accretion of discounts | **(784)** | (746) |
| | **20,032** | 25,700 |
| **Shareholder's fund** | | |
| Interest income: | | |
| - bankers acceptances | **572** | 396 |
| - deposits and placements with financial institutions | **40** | 133 |
| | **612** | 529 |

## 38. MANAGEMENT EXPENSES

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| **Insurance fund** | | |
| Executive directors' remuneration (Note 39) | **946** | 878 |
| Staff salaries and bonus | **12,439** | 12,032 |
| Staff short term accumulating compensated absences | **44** | 9 |
| Staff pension cost – defined contribution plan | **1,489** | 1,438 |
| Other staff benefits | **1,367** | 1,137 |
| | **16,285** | 15,494 |

## 38. MANAGEMENT EXPENSES (Cont'd.)

| | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|
| **Insurance fund (Cont'd.)** | | |
| Depreciation of property, plant and equipment | **973** | 1,302 |
| Auditors' remuneration | **95** | 90 |
| Amortisation : | | |
| - Prepaid land lease payments | **4** | 4 |
| - Intangible assets | **54** | 57 |
| Non-executive directors' remuneration (Note 39) | **115** | 115 |
| (Write back of)/allowance for doubtful debts | **(1,326)** | 168 |
| Bad debts recovered | **(36)** | (19) |
| Rental of properties | **424** | 414 |
| IGSF levy | **582** | 601 |
| Call centre service charges | **564** | 558 |
| Rental of equipment | **1,153** | 1,149 |
| Printing and EDP expenses | **4,859** | 4,703 |
| Business development | **2,209** | 1,563 |
| Credit card charges | **1,928** | 1,959 |
| Office administration and utilities | **1,629** | 1,634 |
| Other expenses | **3,444** | 3,236 |
| | **32,956** | 33,028 |
| **Shareholder's fund** | | |
| Staff salaries and bonus | **3** | 3 |
| Staff pension cost – defined contribution plan | **1** | 1 |
| | **4** | 4 |
| Other expenses | **1** | 1 |
| | **5** | 5 |

## 39. DIRECTORS' REMUNERATION

| | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|
| **Insurance fund** | | |
| Executive directors: | | |
| - salaries | **681** | 646 |
| - bonus | **95** | 82 |
| - defined contribution plan | **100** | 94 |
| - benefits-in-kind | **56** | 56 |
| - short term accumulating compensated absences | **16** | 2 |
| - allowances | **54** | 54 |
| | **1,002** | 934 |
| Non-executive directors: | | |
| - fee (Note 38) | **115** | 115 |
| Total directors' remuneration | **1,117** | 1,049 |
| Total executive directors' remuneration excluding benefits-in-kind (Note 38) | **946** | 878 |

## 40. OTHER OPERATING INCOME - NET

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| **Insurance fund** | | |
| Gain on disposal of: | | |
| - investments | **18,049** | 8,323 |
| - property, plant and equipment | **1** | 2 |
| Realised loss on foreign exchange | **(19)** | (3) |
| Sundry income | **550** | 324 |
| Surplus on return of capital from KMB (Note 28) | **21,095** | - |
| (Allowance for)/write back of diminution in value of investments | **(473)** | 1,800 |
| Permanent diminution in value of investments | **(677)** | (6,865) |
| Property, plant and equipment written off | **(57)** | (6) |
| Others | **(37)** | - |
| | **38,432** | 3,575 |

## 41. INCOME TAX EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Income tax: | | | | |
| Current year's provision | | | | |
| - Malaysian tax | **1,660** | 4,970 | **2,755** | - |
| - foreign tax | **3** | - | **-** | - |
| (Over)/under provision in prior years | **(3,082)** | 27 | **(2,584)** | (215) |
| | **(1,419)** | 4,997 | **171** | (215) |
| Deferred tax (Note 11): | | | | |
| Relating to timing differences | **4,378** | (1,353) | **703** | (1,001) |
| Deferred tax assets written off | **4,032** | - | **-** | - |
| Under provision in prior years | **514** | 336 | **512** | - |
| Transfer from deferred taxation | **8,924** | (1,017) | **1,215** | (1,001) |
| Real Property Gains Tax | **50** | - | - | - |
| | **7,555** | 3,980 | **1,386** | (1,216) |

## 41. INCOME TAX EXPENSE (Cont'd.)

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory tax rate to income tax expense at the effective tax rate of the Group and of the Company is as follows:

| | Group | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Profit/(loss) before taxation | **10,791** | (7,434) |
| Taxation at Malaysian statutory tax rate of 27% (2006 : 28%) | **2,914** | (2,082) |
| Effect of different tax rates in other countries | **55** | (180) |
| Income not subject to tax | **(642)** | (480) |
| Expenses not deductible for tax purposes | **1,872** | 1,762 |
| Deferred tax asset not recognised during the year | **2,109** | 3,065 |
| (Over)/underprovision of tax expense in prior years | **(3,082)** | 27 |
| Effect of change in tax rate on deferred tax assets | **212** | 1,531 |
| Under provision of deferred tax in prior years | **514** | 336 |
| Deferred tax assets written off | **4,032** | - |
| Translation differences | **(84)** | 67 |
| Consolidation adjustments | **(386)** | 142 |
| Others | **41** | (208) |
| Tax expense for the year | **7,555** | 3,980 |

| | Company | |
|---|---|---|
| | 2007 RM'000 | 2006 RM'000 |
| Profit before taxation | **8,917** | 2,189 |
| Taxation at Malaysian statutory tax rate of 27% (2006 : 28%) | **2,408** | 613 |
| Income not subject to tax | **(100)** | (2,318) |
| Expenses not deductible for tax purposes | **1,156** | 572 |
| Over provision of tax expense in prior years | **(2,584)** | (215) |
| Under provision of deferred tax in prior years | **512** | - |
| Effect of change in tax rate on deferred tax assets | **(6)** | 132 |
| Tax expense for the year | **1,386** | (1,216) |

As at 30 September 2007, the Company has:

- unabsorbed capital allowances of approximately RM2,232,000 (2006 : RM2,230,000), subject to agreement with the Inland Revenue Board, which can be used to offset future taxable profits arising from business income.

- a tax exempt account balance of approximately RM10,864,000 (2006 : RM10,864,000), 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 sufficient balance in the exempt account to frank the payment of net dividends out of its entire retained profits.

## 42. EARNINGS/(LOSS) PER SHARE (sen)

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares in issue during the financial year.

| | | Group | |
|---|---|---|---|
| | | **2007** | **2006** |
| Net profit/(loss) for the year attributable to equity holders of the Company | (RM'000) | **3,236** | (11,414) |
| Weighted average number of ordinary shares in issue | ('000) | **104,864** | 103,658 |
| Basic earnings/(loss) per share | (sen) | **3.09** | (11.01) |

(b) Diluted

Diluted earnings/(loss) per share of the Group is calculated by dividing the net profit/(loss) for the year attributable to equity holders of the Company by the adjusted weighted average number of ordinary shares in issue during the financial year. The adjusted weighted average number of ordinary shares in issue is arrived at assuming full implementation of the ESOS which represents the dilutive potential of the ordinary shares.

| | | Group |
|---|---|---|
| | | **2007** |
| Net profit for the year attributable to equity holders of the Company | (RM'000) | **3,236** |
| Weighted average number of ordinary shares in issue | ('000) | **104,864** |
| Effect of dilution: ESOS (share option) | ('000) | **664** |
| Adjusted weighted average number of shares in issue and issuable | ('000) | **105,528** |
| Diluted earnings per share | (sen) | **3.07** |

There is no disclosure of fully diluted loss per share for the previous financial year as the ESOS was anti-dilutive.

## 43. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

| | Group 2007 RM'000 | Group 2006 RM'000 |
|---|---|---|
| **Related company in which a Director has deemed interest:** | | |
| Insurance revenue | **286** | 374 |

| | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|
| **Subsidiaries - Income:** | | |
| Interest income on loans | **707** | 654 |
| Management fee income | **3,353** | 3,100 |

| | Company 2007 RM'000 | Company 2006 RM'000 |
|---|---|---|
| **Subsidiaries - Expenditure:** | | |
| Office rental | **264** | 264 |
| Investment and treasury administration services | **14** | 14 |
| Rental of office equipment | **148** | 136 |
| Information technology advisory services | **1,090** | 1,090 |
| Charges for frame relay and lease lines | **87** | 87 |
| Fee for back up electricity supplies | **18** | 18 |
| Repair and maintenance | **26** | 15 |

Information regarding outstanding balances arising from related party transactions and subsidiary companies as at 30 September 2007 are as disclosed in Note 16 and Note 17.

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.

## 43. SIGNIFICANT RELATED PARTY TRANSACTIONS (Cont'd.)

(b) Key Management Personnel Compensation

The remuneration of key management personnel which consist of executive directors during the year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Short-term employee benefits | | | | |
| Salary and other remuneration | **1,450** | 1,383 | **480** | 480 |
| Bonus | **156** | 143 | **60** | 60 |
| Short term accumulating compensated absences | **13** | 1 | **-** | - |
| Benefits-in-kind | | | | |
| - arising from exercise of share options | **-** | - | **-** | - |
| - others | **89** | 80 | **33** | 24 |
| Post-employment benefits | | | | |
| Pension cost - defined contribution plan | **165** | 159 | **65** | 65 |
| | **1,873** | 1,766 | **638** | 629 |

Key management personnel have been granted the following number of share options:

| | Group ESOS | | Company ESOS | |
|---|---|---|---|---|
| | **2007 '000** | **2006 '000** | **2007 '000** | **2006 '000** |
| At 1 October | **2,600** | 2,600 | **900** | 900 |
| Exercised | **-** | - | **-** | - |
| At 30 September | **2,600** | 2,600 | **900** | 900 |

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

## 44. COMMITMENTS AND CONTINGENCIES

(a) Contingent liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RM'000** | **2006 RM'000** | **2007 RM'000** | **2006 RM'000** |
| Performance guarantees – secured | **200** | 64 | **-** | - |
| Guarantees given to financial institutions for facilities extended to subsidiary companies – secured | **-** | - | **6,545** | 9,808 |
| | **200** | 64 | **6,545** | 9,808 |

**44. COMMITMENTS AND CONTINGENCIES (Cont'd.)**

(b) Non cancellable operating lease commitments

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Future minimum lease payments are as follows: | | | | |
| Not later than 1 year | **2,361** | 2,143 | **108** | 51 |
| Later than 1 year and not later than 5 years | **1,775** | 2,035 | **60** | 72 |
| | **4,136** | 4,178 | **168** | 123 |

These represent rental commitments for computer and office equipment of the Group and of the Company.

(c) Other commitments and contingencies

The Group may be required to contribute up to a maximum amount of RM566,000 (2006 : RM582,000) in the following financial year to the Insurance Guarantee Scheme Fund.

(d) Capital commitments are attributed to property, plant and equipment

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Approved and contracted for | **172** | 3 | **162** | - |

**45. FINANCIAL INSTRUMENTS**

**(a) Financial Risk Management Objectives and Policies**

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its underwriting, credit, interest rate, market, foreign exchange and liquidity risks. The Group manages its financial risk 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 insurance subsidiary 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 the 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 Group's association to counter parties with high credit worthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

**45. FINANCIAL INSTRUMENTS (Cont'd.)**

**(c) Credit Risk (Cont'd.)**

The risk arising from lending and investment activities of the insurance subsidiary company 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 Bank Negara Malaysia.

The maximum exposure to credit risks is the carrying amount as stated in the financial statements.

The Group has significant concentration of credit risk related to loan receivable from a third party amounting to approximately RM6,721,000 (2006: RM10,000,000) at the balance sheet date.

The Group's credit risk exposure on corporate bonds is analysed as follows:

| | Group | |
|---|---|---|
| | **2007 RM'000** | **2006 RM'000** |
| Rating of corporate bonds on market value basis : | | |
| AA3 | **5,336** | 5,412 |
| AA2 | **5,045** | - |
| AA- | **5,011** | 10,204 |
| A1 | **5,051** | - |
| A3 | **-** | 4,907 |
| A+ | **10,520** | - |
| A | **-** | 5,184 |
| | **30,963** | 25,707 |
| Analysis of corporate bonds by industry segments : | | |
| Properties | **5,045** | 5,184 |
| Power | **5,336** | 5,412 |
| Trading/services | **5,051** | 10,078 |
| Oil and gas | **5,011** | 5,033 |
| Infrastructure and utilities | **10,520** | - |
| | **30,963** | 25,707 |

**(d) Interest Rate Risk**

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

The Group 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.

## 45. FINANCIAL INSTRUMENTS (Cont'd.)

### (e) Market Risk

The Group'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 Group manages the disposal of these investments with a view to optimising returns on realisation.

### (f) Foreign Exchange Risk

The Group operates internationally and 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 transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

### (g) Liquidity Risk

The Group actively manages its debt maturity profile and operating cash flows whilst ensuring that funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

### (h) Derivatives

As at 30 September 2007 and 2006, the Group did not transact in any derivative instruments for hedging purposes.

### (i) Fair Values

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

| | Group | | Company | |
|---|---|---|---|---|
| | Carrying amount RM'000 | Fair Value RM'000 | Carrying amount RM'000 | Fair Value RM'000 |
| **At 30 September 2007:** | | | | |
| **Financial Assets** | | | | |
| Club membership | 55 | 60 | - | - |
| Due from subsidiary companies | - | - | 60,355 | * |
| Long term investment in quoted securities: | | | | |
| Shares in Malaysia | 20,235 | 20,866 | 19,674 | 20,539 |
| Warrant in Malaysia | 132 | 1,756 | 132 | 1,756 |
| Investment securities: | | | | |
| Malaysian Government Securities | 61,700 | 62,143 | - | - |
| Islamic corporate bonds | 30,636 | 30,963 | - | - |
| Shares quoted in Malaysia | 77,094 | 79,096 | - | - |
| Shares quoted outside Malaysia | 4,423 | 6,895 | - | - |
| Unit trusts | 8,649 | 9,468 | - | - |
| Unquoted shares in Malaysia | 280 | 349 | - | - |

## 45. FINANCIAL INSTRUMENTS (Cont'd.)

### (i) Fair Values (Cont'd.)

| | Group | | Company | |
|---|---|---|---|---|
| | **Carrying amount RM'000** | **Fair Value RM'000** | **Carrying amount RM'000** | **Fair Value RM'000** |
| **At 30 September 2007:** | | | | |
| **Financial Liabilities** | | | | |
| Hire purchase creditors | **1,059** | **1,062** | **268** | **270** |
| **At 30 September 2006:** | | | | |
| **Financial Assets** | | | | |
| Club membership | 55 | 60 | - | - |
| Due from subsidiary companies | - | - | 76,583 | * |
| Long term investment in quoted securities: | | | | |
| Shares in Malaysia | 19,895 | 12,151 | 19,053 | 11,591 |
| Warrant in Malaysia | 132 | 530 | 132 | 530 |
| Investment securities: | | | | |
| Malaysian Government Securities | 56,109 | 56,062 | - | - |
| Islamic corporate bonds | 20,193 | 20,800 | - | - |
| Shares quoted in Malaysia | 23,882 | 24,592 | - | - |
| Unit trusts | 6,573 | 6,624 | - | - |
| Unquoted shares in Malaysia | 22,696 | 43,671 | - | - |
| Unquoted corporate bonds | 4,856 | 4,907 | - | - |
| **Financial Liabilities** | | | | |
| Hire purchase creditors | 1,285 | 1,305 | 290 | 293 |

* It is not practical to estimate the fair values of amounts due from subsidiary companies mainly due to a lack of fixed repayment terms entered into by the parties involved.

The nominal/notional amounts and net fair value of financial instruments not recognised in the balance sheets of the Group and the Company as at the end of the financial year are:

| | Group | | Company | |
|---|---|---|---|---|
| | **Nominal/ Notional Amount RM'000** | **Net Fair Value RM'000** | **Nominal/ Notional Amount RM'000** | **Net Fair Value RM'000** |
| **Contingent liabilities** | | | | |
| **At 30 September 2007** | **200** | ***** | **6,545** | ***** |
| At 30 September 2006 | 64 | * | 9,808 | * |

* It is not practical to estimate the fair value of contingent liabilities reliably due to the uncertainties of timing, costs and eventual outcome.

## 45. FINANCIAL INSTRUMENTS (Cont'd.)

### (i) Fair Values (Cont'd.)

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

(i) Cash and bank balances, deposits and placements with financial institutions, bankers acceptances, trade and other receivables/payables, loans and lease receivable and short term borrowings.

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

(ii) Club membership

The fair value of the club membership was obtained from the Property Market Report issued by the Valuation Department of Malaysia.

(iii) Malaysian Government Securities, Islamic corporate bonds and unquoted corporate bonds.

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

(iv) Quoted Securities

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

(v) 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.

(vi) 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.

## 46. SEGMENT REPORTING

(a) Business Segments:

The Group is organised into four major business segments:

(i) Insurance

(ii) Information technology

(iii) Investment holding

(iv) Money lending

Other business segments include distribution of consumer goods, provision of sales and administrative services, provision of management and privilege card programme services, none of which is of a sufficient size to be reported separately.

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

## 46. SEGMENT REPORTING (Cont'd.)

| 30 September 2007 | Insurance RM'000 | Information technology RM'000 | Investment holding RM'000 | Money lending RM'000 | Others RM'000 | Elimination RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|---|
| REVENUE | | | | | | | |
| External sales | 248,498 | 5,468 | 1,823 | 1,083 | - | - | 256,872 |
| Inter-segment sales | 268 | 6,272 | 20,498 | 141 | 9 | (27,188) | - |
| Total segment revenue | 248,766 | 11,740 | 22,321 | 1,224 | 9 | (27,188) | 256,872 |
| RESULT | | | | | | | |
| Segment result | 27,329 | (9,300) | 11,508 | 292 | (426) | (15,617) | 13,786 |
| Finance cost | | | | | | | (3,035) |
| Interest income | | | | | | | 40 |
| Profit before tax | | | | | | | 10,791 |
| Income tax expense | | | | | | | (7,555) |
| Net profit for the year | | | | | | | 3,236 |
| ASSETS | | | | | | | |
| Segment assets | 576,190 | 12,672 | 19,431 | 14,006 | 21 | | 622,320 |
| Unallocated corporate assets | | | | | | | 27,823 |
| Consolidated total assets | | | | | | | 650,143 |
| LIABILITIES | | | | | | | |
| Segment liabilities | | | | | | | 417,894 |
| Unallocated corporate liabilities | | | | | | | 49,510 |
| Consolidated total liabilities | | | | | | | 467,404 |
| OTHER INFORMATION | | | | | | | |
| Capital expenditure | 229 | 547 | 99 | - | - | | 875 |
| Depreciation | 893 | 1,374 | 90 | - | 5 | | 2,362 |
| Amortisation | 52 | 151 | 9 | - | 1 | | 213 |
| Non-cash expenses | 17,635 | 35 | 34 | 239 | 32 | | 17,975 |

## 46. SEGMENT REPORTING (Cont'd.)

| 30 September 2006 | Insurance RM'000 | Information technology RM'000 | Investment holding RM'000 | Money lending RM'000 | Others RM'000 | Elimination RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|---|
| REVENUE | | | | | | | |
| External sales | 260,332 | 4,021 | 840 | 1,008 | - | - | 266,201 |
| Inter-segment sales | 269 | 6,081 | 11,754 | 151 | 35 | (18,290) | - |
| Total segment revenue | 260,601 | 10,102 | 12,594 | 1,159 | 35 | (18,290) | 266,201 |
| RESULT | | | | | | | |
| Segment result | 18,559 | (8,999) | 4,644 | (9,167) * | (561) | (8,544) | (4,068) |
| Unallocated corporate expense | | | | | | | (379) |
| Operating loss | | | | | | | (4,447) |
| Finance cost | | | | | | | (3,003) |
| Interest income | | | | | | | 16 |
| Loss before tax | | | | | | | (7,434) |
| Income tax expense | | | | | | | (3,980) |
| Net loss for the year | | | | | | | (11,414) |
| ASSETS | | | | | | | |
| Segment assets | 533,880 | 14,932 | 21,144 | 22,852 | 68 | | 592,876 |
| Unallocated corporate assets | | | | | | | 34,759 |
| Consolidated total assets | | | | | | | 627,635 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 384,423 | 1,593 | 773 | 3 | 31 | | 386,823 |
| Unallocated corporate liabilities | | | | | | | 47,605 |
| Consolidated total liabilities | | | | | | | 434,428 |

* This includes an amount of RM9,684,000 being interest written off from a negotiated settlement of an amount due from an unrelated corporation.

**46. SEGMENT REPORTING (Cont'd.)**

| 30 September 2006 | Insurance RM'000 | Information technology RM'000 | Investment holding RM'000 | Money lending RM'000 | Others RM'000 | Elimination RM'000 | Group RM'000 |
|---|---|---|---|---|---|---|---|
| OTHER INFORMATION | | | | | | | |
| Capital expenditure | 177 | 509 | 328 | - | - | | 1,014 |
| Depreciation | 1,097 | 1,601 | 167 | - | 12 | | 2,877 |
| Amortisation | 57 | 215 | 388 | - | 1 | | 661 |
| Non-cash expenses | 7,049 | 522 | 6 | 9,684 | 20 | | 17,281 |

(b) Geographical Segments

In Malaysia, the Group's areas of operation are principally insurance, information technology, investment holding and money lending. Other operations in Malaysia include distribution of consumer goods, provision of sales and administrative services, provision of management and privilege card programme services.

The Group also operates in the United States of America (information technology) and Thailand (information technology).

| | Total Revenue from External Customers | | Segment Assets | | Capital Expenditure | |
|---|---|---|---|---|---|---|
| | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 | 2007 RM'000 | 2006 RM'000 |
| Malaysia | **253,607** | 264,139 | **618,550** | 589,618 | **864** | 951 |
| Thailand | **2,808** | 1,810 | **2,075** | 1,316 | **3** | 37 |
| United States of America | **457** | 252 | **1,695** | 1,942 | **8** | 26 |
| | **256,872** | 266,201 | **622,320** | 592,876 | **875** | 1,014 |

# LIST OF GROUP'S PROPERTIES
## AS AT 30 SEPTEMBER 2007

| No. | Location | Gross build-up area (Land area) sq. ft. | Tenure | Description / existing use | Net book value @ 30.9.2007 RM'000 | Approximate age of building Years | Date of acquisition/ Date of last valuation |
|---|---|---|---|---|---|---|---|
| | **MALAYSIA** | | | | | | |
| 1. | P.N. 7383 Lot 1703 Section 46 and P.N. 7382 Lot 1700 Section 46<br><br>10th Floor<br>Wisma Bumi Raya<br>No. 10, Jalan Raja Laut<br>50350 Kuala Lumpur<br>Wilayah Persekutuan | 10,590 | Leasehold expiring 8.4.2074 | Office | 3,313 | 22 | Unit 10-A<br>1.7.1993<br>/NA<br><br>Unit 10-B<br>1.4.1995<br>/NA |
| 2. | Lot No. P.T. 7 Section 46 and Lot No. P.T. 8 Section 47 Title Nos. H.S.(D) 814 and H.S.(D) 815 Town and District of Kuala Lumpur<br><br>11th and 12th Floor<br>Wisma Bumi Raya<br>No. 10, Jalan Raja Laut<br>50350 Kuala Lumpur<br>Wilayah Persekutuan | 11th Floor<br>10,589<br><br>12th Floor<br>10,589 | Leasehold expiring 8.4.2074 | Office | 4,753 | 22 | 21.12.1982<br>/NA |
| 3. | Lot No. 262<br>Mukim of Ampang<br>District and State of<br>Wilayah Persekutuan<br><br>Unit 15-A, 15th Floor<br>GCB Court<br>No. 63, Jalan Ampang<br>50450 Kuala Lumpur<br>Wilayah Persekutuan | 1,596 | Freehold | Condominium/ Residential | 398 | 22 | 14.4.1986/<br>28.6.2007 |
| 4. | Grant Nos. 7486, 7491, 1362 and C.T. 1226<br>1438, 323, 322 & 2145<br>Town of Seremban<br><br>Shoplot No. G.07<br>Ground Floor<br>Wisma Punca Emas<br>Jalan Yam Tuan<br>70000 Seremban<br>Negeri Sembilan<br>Darul Khusus | 312.5 | Freehold | Shop-lot | 158 | 28 | 1.12.1986/<br>4.7.2007 |

# LIST OF GROUP'S PROPERTIES
## AS AT 30 SEPTEMBER 2007

| No. | Location | Gross build-up area (Land area) sq. ft. | Tenure | Description / existing use | Net book value @ 30.9.2007 RM'000 | Approximate age of building Years | Date of acquisition/ Date of last valuation |
|---|---|---|---|---|---|---|---|
| 5. | Lot No. 36 (formerly known as Private Lot No. 33), Block E Part of Lot No. 281 Section 48 Kuching Town Land District<br><br>Taman Sri Sarawak Mall Jalan Padungan 93100 Kuching, Sarawak | 3,878 | Leasehold expiring 11.8.2771 | 4 storey shop-house | 502 | 23 | 8.12.1984/ 13.10.2006 |
| 6. | Lot No. 3.01 & 3.02 GL Nos. 20323, 20324, 20325 &. 20326<br><br>Lot 3.1 & 3.2, 3rd Floor Wisma Kota Emas Jalan Dato' Tahwil Azhar 30300 Ipoh Perak Darul Ridzuan | 1530 | Freehold | Office-lots | 67 | 24 | 13.2.1991 /NA |
| 7. | Block No. AC, Lot No. 318 Mahkota Square Lot 2, P.N. 6528 Kawasan Bandar XLII Daerah Melaka Tengah Negeri Melaka<br><br>No.2, Jalan PM7 Plaza Mahkota Bandar Hilir 75000 Melaka | 8,347 | Leasehold expiring 25.7.2090 | 4 storey shop-office | 1,293 | 9 | 18.9.1998 /NA |
| 8. | Lot No. 4328 N Held under Title No. 8385 Town of Ipoh District of Kinta Ipoh, Perak Darul Ridzuan<br><br>Parcel No. BO-26 No. 26, Ground Floor Cherry Apartment Off Jalan Maxwell 30100 Ipoh Perak Darul Ridzuan | 748 | Freehold | Apartment/ Residential | 50 | 16 | 4.1.1996/ 30.10.2006 |

# LIST OF GROUP'S PROPERTIES
## AS AT 30 SEPTEMBER 2007

| No. | Location | Gross build-up area (Land area) sq. ft. | Tenure | Description / existing use | Net book value @ 30.9.2007 RM'000 | Approximate age of building Years | Date of acquisition/ Date of last valuation |
|---|---|---|---|---|---|---|---|
| 9. | H.S.(D) 128978<br>P.T. No. 43545<br>Mukim of Petaling<br><br>No. 40, Jalan BP 5/8<br>Bandar Bukit Puchong<br>Puchong<br>47100 Kuala Lumpur | 5,099<br>(3,477) | Freehold | 1 $^{1}/_{2}$ storey factory corner unit/ office | 406 | 8 | 3.12.1999 /NA |
| 10. | H.S.(D) 128977<br>P.T. No. 43544<br>Mukim of Petaling<br><br>No. 38, Jalan BP 5/8<br>Bandar Bukit Puchong<br>Puchong<br>47100 Kuala Lumpur | 2,875<br>(2,002) | Freehold | 1 $^{1}/_{2}$ storey intermediate unit/office | 208 | 8 | 3.12.1999 /NA |

# SHAREHOLDINGS STATISTICS
## AS AT 31 DECEMBER 2007

| | | |
|---|---|---|
| Authorised capital | : | RM200,000,000.00 |
| Issued and fully paid-up capital | : | RM110,652,000.00 |
| Class of shares | : | Ordinary shares of RM1.00 each |
| Voting rights | : | One vote per RM1.00 share |

### BREAKDOWN OF SHAREHOLDINGS

| Holdings | No. of Holders | Total Holdings | % |
|---|---|---|---|
| Less than 100 | 426 | 17,611 | 0.01 |
| 100 to 1,000 | 200 | 78,805 | 0.07 |
| 1,001 to 10,000 | 3,332 | 8,973,174 | 8.11 |
| 10,001 to 100,000 | 516 | 11,393,042 | 10.30 |
| 100,001 to less than 5% of issued shares | 62 | 51,874,176 | 46.88 |
| 5% and above of issued shares | 3 | 38,315,192 | 34.63 |
| Total | 4,539 | 110,652,000* | 100.00 |

*The number of 110,652,000 ordinary shares is inclusive of treasury shares retained by the Company.

### SUBSTANTIAL SHAREHOLDERS

According to the Register of Substantial Shareholders, the substantial shareholders of the Company as at 31 December 2007 were as follows:

| | No. of RM1.00 Shares | | | |
|---|---|---|---|---|
| Name | Direct Interest | % | Indirect Interest | % |
| Chan Hua Eng | 138,152 | 0.13 | 64,683,072[(1)] | 61.43 |
| Chan Thye Seng | 11,121,413 | 10.56 | 53,682,542[(2)] | 50.98 |
| Mah Wing Holdings Sdn Bhd | 26,390,584 | 25.06 | - | - |
| Mah Wing Investments Limited | 24,897,960 | 23.65 | - | - |

### DIRECTORS' SHAREHOLDINGS

According to the Register of Directors' Shareholdings, the Directors' shareholdings as at 31 December 2007 were as follows:

| | No. of RM1.00 Shares | | | |
|---|---|---|---|---|
| Name | Direct Interest | % | Indirect Interest | % |
| Chan Hua Eng | 138,152 | 0.13 | 64,683,072[(1)] | 61.43 |
| Chan Thye Seng | 11,121,413 | 10.56 | 53,682,542[(2)] | 50.98 |
| Michael Yee Kim Shing | - | - | 903,098[(3)] | 0.86 |
| Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed | - | - | 3,283,511[(4)] | 3.12 |
| Dato' Abu Hanifah Bin Noordin | - | - | 2,283,279[(5)] | 2.17 |

Notes:

(1) Held by virtue of Chan Hua Eng's interests in Chan Kok Tien Realty Sdn Bhd ("CKT"), Tysim Holdings Sdn Bhd ("Tysim") and deemed to have interest in shares held by his spouse and children.

(2) Held by virtue of Chan Thye Seng's interests in Mah Wing Investments Limited, Mah Wing Holdings Sdn Bhd, CKT, Tysim and deemed to have interest in shares held by his parents.

(3) Held by virtue of Michael Yee Kim Shing's interests in shares which are registered under the name of "HDM Nominees (Tempatan) Sdn Bhd HDM Capital Sdn Bhd For Michael Yee Kim Shing", his spouse and children.

(4) Held by virtue of Y.M. Tunku Dato' Mu'tamir Bin Tunku Tan Sri Mohamed's interests in shares which are registered under the name of "HDM Nominees (Tempatan) Sdn Bhd HDM Capital Sdn Bhd For Tunku Mu'tamir Bin Tunku Tan Sri Mohamed".

(5) Held by virtue of Dato' Abu Hanifah Bin Noordin's interests in shares which are registered under the name of "HDM Nominees (Tempatan) Sdn Bhd HDM Capital Sdn Bhd For Abu Hanifah Bin Noordin".

# SHAREHOLDINGS STATISTICS
## AS AT 31 DECEMBER 2007

### THIRTY LARGEST SECURITIES ACCOUNTS HOLDERS

| | Name | No. of RM1.00 Shares | % of Issued Capital |
|---|---|---|---|
| 1. | HDM Nominees (Asing) Sdn Bhd<br>For Mah Wing Investments Limited | 17,780,184 | 16.89 |
| 2. | Mah Wing Holdings Sdn Bhd | 13,947,203 | 13.25 |
| 3. | Mah Wing Investments Limited | 6,587,805 | 6.26 |
| 4. | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Mah Wing Holdings Sdn Bhd | 5,161,092 | 4.90 |
| 5. | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Chan Thye Seng | 3,914,274 | 3.72 |
| 6. | ECM Libra Avenue Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account For Mah Wing Holdings Sdn Bhd | 3,600,000 | 3.42 |
| 7. | EB Nominees (Tempatan) Sendirian Berhad<br>Pledged Securities Account For Mah Wing Holdings Sdn Bhd | 3,453,770 | 3.28 |
| 8. | HDM Nominees (Tempatan) Sdn Bhd<br>HDM Capital Sdn Bhd For Tunku Mu'tamir Bin Tunku Tan Sri Mohamed | 3,283,511 | 3.12 |
| 9. | CIMB Group Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account For Chan Thye Seng | 2,878,143 | 2.73 |
| 10. | ECM Libra Avenue Nominees (Tempatan) Sdn. Bhd.<br>Pledged Securities Account For Chan Thye Seng | 2,434,800 | 2.31 |
| 11. | HDM Nominees (Tempatan) Sdn Bhd<br>HDM Capital Sdn Bhd For Abu Hanifah Bin Noordin | 2,283,279 | 2.17 |
| 12. | Amanah Raya Nominees (Tempatan) Sdn Bhd<br>Skim Amanah Saham Bumiputera | 1,979,012 | 1.88 |
| 13. | CIMSEC Nominees (Tempatan) Sdn Bhd<br>ING Asia Private Bank Limited For Chan Thye Seng | 1,855,827 | 1.76 |
| 14. | Chan Kok Tien Realty Sdn Bhd | 1,737,421 | 1.65 |
| 15. | ECM Libra Avenue Nominees (Asing) Sdn. Bhd.<br>United Forest Limited | 1,727,951 | 1.64 |
| 16. | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>PHEIM Asset Management Sdn Bhd For Employees Provident Fund | 1,058,700 | 1.01 |
| 17. | Amanah Saham Mara Berhad | 1,044,659 | 0.99 |
| 18. | Yeoh Kean Hua | 830,668 | 0.78 |
| 19. | HDM Nominees (Tempatan) Sdn Bhd<br>HDM Capital Sdn Bhd For Michael Yee Kim Shing | 721,200 | 0.68 |
| 20. | Mah Wing Investments Limited | 529,971 | 0.50 |
| 21. | Yayasan Kedah Berhad | 491,587 | 0.47 |
| 22. | Ancom Berhad | 399,487 | 0.38 |
| 23. | Chan Kok Tien Realty Sdn Bhd | 355,300 | 0.34 |
| 24. | Ng Sim Hooi | 350,000 | 0.33 |
| 25. | Kampong Kuantan Palm Oil Mill Berhad | 343,010 | 0.33 |
| 26. | Ong Joo Hock | 325,500 | 0.31 |
| 27. | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY For DFA Emerging Markets Fund | 275,495 | 0.26 |
| 28. | Meng Hin Holdings Sdn Bhd | 271,309 | 0.26 |
| 29. | DB (Malaysia) Nominee (Asing) Sdn Bhd<br>Exempt An For Deutsche Bank AG Singapore | 252,637 | 0.24 |
| 30. | Southern Investment Bank Berhad<br>Employee's Provident Fund | 251,523 | 0.24 |
| | Total | 80,125,318 | 76.10 |

# FORM OF PROXY

**PACIFIC & ORIENT BERHAD**
(308366-H) (Incorporated in Malaysia)

| No. of Shares Held | |
|---|---|

*I/We, ____________________________________________________________

of ____________________________________________________________

being a member/members of PACIFIC & ORIENT BERHAD, hereby appoint ______________________________

______________________________of ______________________________

or failing whom, ______________________________of ______________________________

____________________________________________________________or failing whom the

**Chairman of the meeting** as *my/our proxy to vote for *me/us on *my/our behalf at the Fourteenth Annual General Meeting of the Company to be held at the Anggerik Room, Hotel Equatorial Kuala Lumpur, Jalan Sultan Ismail, 50250 Kuala Lumpur on Wednesday, 5 March 2008 at 10.30 a.m., and at any adjournment thereof.

| No. | Resolutions | For | Against |
|---|---|---|---|
| 1. | To receive and consider the Audited Financial Statements and Reports | | |
| 2. | To re-elect Y.Bhg. Dato' Abu Hanifah Bin Noordin as Director | | |
| 3. | To re-appoint Mr Chan Hua Eng as Director | | |
| 4. | To re-appoint Mr Michael Yee Kim Shing as Director | | |
| 5. | To re-appoint Messrs Ernst & Young as Auditors and to authorise the Directors to fix their remuneration | | |
| 6. | Proposed Amendments to the Articles of Association of the Company | | |
| 7. | Authority under Section 132D of the Companies Act, 1965, to issue shares | | |
| 8. | Proposed Renewal of Authority for the Purchase by the Company of its Own Shares | | |

(Please indicate with an "X" in the space provided above how you wish your vote to be cast on the resolutions specified in the notice of meeting. If no specific direction as to voting is given, the proxy will vote or abstain at his discretion.)

*Delete if not applicable.

As witness my hand this _____ day of _____________ 2008

______________________________
Signature/Common Seal of Member(s)

**Notes:**

1. A member entitled to attend and vote at the meeting is entitled to appoint one (1) proxy to attend and vote in his stead. A proxy may but need not be a member of the Company.
2. The instrument appointing a proxy must be deposited at the registered office of the Company situated at 11th Floor, Wisma Bumi Raya, No. 10 Jalan Raja Laut, 50350 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for the meeting.
3. In the case of a corporate member, the instrument appointing a proxy must be executed under its common seal or under the hand of its attorney.

Fold Here

STAMP

Company Secretary
**PACIFIC & ORIENT BERHAD** (308366-H)
11th Floor, Wisma Bumi Raya
No. 10 Jalan Raja Laut
50350 Kuala Lumpur
Malaysia

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**PACIFIC & ORIENT BERHAD**
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