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If you are in doubt of what action you should take, please consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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ADVANCE SYNERGY BERHAD

(Company No. 1225-D)

(Incorporated in Malaysia under the Companies Ordinance, 1915)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED DISPOSAL BY ADVANCE SYNERGY CAPITAL SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF ADVANCE SYNERGY BERHAD, OF ITS ENTIRE 49% EQUITY INTEREST IN ACE SYNERGY INSURANCE BERHAD TO ACE INA INTERNATIONAL HOLDINGS, LTD. FOR A TOTAL CASH CONSIDERATION OF RM117.0 MILLION

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

We will hold the Extraordinary General Meeting ("**EGM**") at the Auditorium, Level 4, The Podium, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 6 June 2011, at 10.00 a.m., for the purpose of considering the abovementioned proposal.

We have enclosed a Proxy Form in this Circular and if you are unable to attend and vote in person at the EGM, you should complete the Proxy Form in accordance with the instructions thereon and deposit it at our Registered Office at Level 3, East Wing, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan, on or before the date and time indicated below. You may still attend and vote in person at the meeting if you subsequently wish to do so even after you have lodged the Proxy Form.

Last date and time for lodging the Proxy Form : Saturday, 4 June 2011, at 10.00 a.m.
Date and time of the EGM : Monday, 6 June 2011, at 10.00 a.m.

This Circular is dated 20 May 2011

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

"AIIH"	:	ACE INA International Holdings, Ltd.
"ASIB"	:	ACE Synergy Insurance Berhad (364935-P)
"Act"	:	Companies Act, 1965 as amended from time to time and any re-enactment thereof
"ASB" or "Company"	:	Advance Synergy Berhad (1225-D)
"ASB Group" or "Group"	:	ASB and its subsidiaries, collectively
"ASB Share(s)"	:	Ordinary shares of RM0.30 each in ASB
"ASCAP"	:	Advance Synergy Capital Sdn Bhd (286452-T), a wholly-owned subsidiary of ASB
"ASCAP Group"	:	ASCAP and its subsidiaries, collectively
"BNM"	:	Bank Negara Malaysia
"Board"	:	Board of directors of ASB
"Director(s)"	:	Has the meaning given in Section 2(1) of the Capital Markets and Services Act 2007 and includes any person who is or was within the preceding 6 months of the date on which the terms of the Proposed Disposal were agreed upon, a director of ASB, its subsidiary or holding company or a chief executive officer of ASB, its subsidiary or holding company
"EGM"	:	Extraordinary general meeting
"EPS"	:	Earnings per share
"FYE"	:	Financial year ended/ending
"LPD"	:	30 April 2011, being the latest practicable date prior to the printing and despatch of this Circular
"MOF"	:	Minister of Finance
"NA"	:	Net assets
"Proposed Disposal"	:	Proposed disposal by ASCAP of its entire 49% equity interest in ASIB comprising 49,000,000 ordinary shares of RM1.00 each in the issued and paid-up share capital of ASIB to AIIH for a total cash consideration of RM117.0 million
"RM" and "sen"	:	Ringgit Malaysia and sen respectively
"SPA"	:	Sale and Purchase Agreement of ASIB Shares deemed to have been entered into by ASB, ASCAP and AIIH in relation to the Proposed Disposal

Unless specifically referred to, words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include corporations. Any references to "we", "us", "our" or "Company" in this Circular are to ASB.

Any reference in this Circular to any provisions of the statutes, rules, regulations or rules of stock exchange shall (where the context admits), be construed as a reference to provisions of such statutes, rules, regulations or rules of stock exchange (as the case may be) as modified by any written law or (if applicable) amendments to the statutes, rules, regulations or rules of stock exchange for the time being in force.

Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

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ADVANCE SYNERGY BERHAD

(Company No: 1225-D)

(Incorporated in Malaysia under the Companies Ordinance, 1915)

Registered Office:

Level 3, East Wing, Wisma Synergy
No. 72, Pesiaran Jubli Perak
Seksyen 22, 40000 Shah Alam
Selangor Darul Ehsan

20 May 2011

The Board of Directors:

Dato' Ahmad Sebi Bakar (*Executive Chairman*)
Lee Su Nie (*Executive Director/Chief Executive Officer*)
Dato' Abdul Murad Bin Khalid (*Independent Non-Executive Director*)
Datin Masri Khaw Binti Abdullah (*Non-Independent Non-Executive Director*)
Chim Wai Khuan (*Independent Non-Executive Director*)
Yong Teck Ming (*Independent Non-Executive Director*)

To: The Shareholders of Advance Synergy Berhad

Dear Sir/Madam,

PROPOSED DISPOSAL BY ASCAP OF ITS ENTIRE 49% EQUITY INTEREST IN ASIB TO AIIH FOR A TOTAL CASH CONSIDERATION OF RM117.0 MILLION

1. INTRODUCTION

The Proposed Disposal arises from AIIH exercising the call option ("Call Option") on 4 February 2009 to purchase ASCAP's entire shareholding of 49,000,000 ordinary shares of RM1.00 each representing 49% of the total issued and paid-up share capital in ASIB ("ASIB Shares") for a cash consideration of RM117.0 million. The exercise of the Call Option was pursuant to the Amended and Restated Shareholders Agreement dated 1 January 2009 ("ARSA") between ASB, ASCAP and AIIH. AIIH had informed ASCAP of their intention to expand the operations of ASIB through mergers and acquisitions. ASCAP did not want to commit further capital in ASIB and did not wish to hinder the expansion plans of AIIH ("Underlying Transaction"). Hence, ASCAP agreed for the Call Option to be incorporated in the ARSA. The Call Option and the exercise of the Call Option is disputed by ASCAP on the basis that it was not meant to be acted upon until the occurrence of the Underlying Transaction and upon the relevant authorities' approvals, namely the MOF's approval pursuant to Section 67 of the Insurance Act, 1967, being obtained for the Call Option of which the MOF's approval was not sought and obtained.

The dispute on the Call Option and the exercise of the Call Option was adjudicated by the courts in various legal proceedings between AIIH and ASCAP.

A summary of the legal proceedings in court between AIIH and ASCAP is as follows:

1st OS

- (a) AIIH first commenced legal proceedings against ASCAP regarding the Call Option when on 3 November 2009 AIIH issued an Originating Summons at the High Court Kuala Lumpur vide Originating Summons No. D-24NCC-72-2009 ("1st OS") seeking inter-alia an order to compel ASCAP to furnish its written consent to AIIH's application to BNM for the approval of the MOF under Section 67 of the Insurance Act, 1996 in respect of the Proposed Disposal.
- (b) On 12 May 2010, the High Court made an order in the 1st OS for ASCAP to give its written consent ("1st OS Order").
- (c) The effect of the Grounds of Judgment delivered by the High Court was that:
 - (i) there was sufficient compliance with Section 67 of the Insurance Act, 1967 for the Call Option; and
 - (ii) that the Call Option and the exercise thereof is valid and enforceable.
- (d) ASCAP appealed to the Court of Appeal against the 1st OS Order.
- (e) ASCAP's appeal against the 1st OS Order was dismissed by the Court of Appeal on 9 July 2010.
- (f) ASCAP then applied to the Federal Court for leave to appeal against the dismissal of ASCAP's appeal in respect of the 1st OS Order by the Court of Appeal. This leave application was heard and dismissed by the Federal Court on 8 November 2010.
- (g) On 17 January 2011, ASCAP filed a Motion in the Federal Court under Rule 137 of the Rules of the Federal Court to set aside the Federal Court's refusal of leave to appeal of 8 November 2010. This Motion under Rule 137 has been dismissed by the Federal Court on 8 April 2011.

Judicial Review

- (a) On 18 October 2010, ASCAP filed an application to the High Court Kuala Lumpur for leave to seek a judicial review ("JR") of the MOF Approval (as defined below) with a view to having the MOF Approval (as defined below) quashed.
- (b) ASCAP's application for leave to seek JR of the MOF Approval (as defined below) was dismissed by the High Court on 21 April 2011.

2nd OS

- (a) On 8 October 2010, AIIH filed the Originating Summons No. D-24 NCC-332-2010 against ASCAP ("2nd OS") to *inter alia*, compel ASCAP to forward the board and shareholders resolutions and completion documents in respect of the Proposed Disposal to AIIH.
- (b) On 29 November 2010, the High Court granted the orders sought by AIIH against ASCAP under the 2nd OS to implement the Proposed Disposal ("2nd OS Court Order").
- (c) ASCAP lodged an appeal to the Court of Appeal against the 2nd OS Court Order. This appeal was dismissed on 19 April 2011.
- (d) AIIH commenced committal proceedings against ASCAP, our Company and their directors for alleged disobedience of the 2nd OS Court Order ("Application"). The Application was heard on 29 April 2011 and the Court reserved its decision to 20 May 2011.

The dispute by ASCAP on the Call Option and the exercise of the Call Option has been decided by the courts as a result of the 1st OS Order and the effect of the Grounds of Judgment in the 1st OS. The ARSA thus remains valid and binding. The ARSA contains all the terms and conditions governing the Call Option and the salient terms of the ARSA are set out in Appendix III of this Circular.

As a result of the 1st OS Order and in compliance with the 1st OS Order, ASCAP was compelled to give its written consent dated 21 May 2010 to AIH in respect of AIH's application to BNM for the approval of the MOF in respect of the Proposed Disposal.

On 13 September 2010, ASCAP received a letter dated 9 September 2010 from BNM notifying that the MOF has approved the Proposed Disposal under Section 67 of the Insurance Act, 1996 ("MOF Approval"), without imposing any conditions on ASCAP.

Subsequently, the SPA for the Proposed Disposal of the ASIB Shares is deemed to become binding and effective as set out in Section 2.1 of this Circular.

Having regard to the outcome of the legal proceedings wherein the courts have ruled in favour of AIH in particular the 2nd OS Court Order, we propose to seek approval from our shareholders for the Proposed Disposal.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE DETAILS OF THE PROPOSED DISPOSAL AND TO SEEK YOUR APPROVAL FOR THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED DISPOSAL TO BE TABLED AT THE FORTHCOMING EGM TO BE CONVENED. THE NOTICE OF EGM TOGETHER WITH THE PROXY FORM IS ENCLOSED IN THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CONSIDER THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED DISPOSAL TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED DISPOSAL

2.1 Introduction

The Proposed Disposal involves the entire 49% equity interest in ASIB held by ASCAP.

The original cost of investment of ASCAP in ASIB was RM71.0 million. The completion date of such investment is 15 January 2003.

The terms and conditions governing the Proposed Disposal are contained in the SPA.

The SPA shall be deemed to have become binding and effective on ASB, ASCAP and AIH on the expiry of three (3) days following receipt of AIH's acceptance of the MOF Approval.

ASCAP was informed of AIH's acceptance of the AIH's MOF approval on 20 September 2010 and following the 1st OS Order and the effect of the Grounds of Judgment in the 1st OS, the SPA is deemed to have become binding and effective on 23 September 2010.

2.2 Sale Consideration

Taking into consideration that the ARSA was dated 1 January 2009, the consideration of RM117.0 million was arrived at based on the latest available audited financial statements of ASIB for the FYE 31 December 2007.

The consideration of RM117.0 million represents a price/book value multiple of about 1.5 times based on the audited financial statements of ASIB for the FYE 31 December 2007 and after taking into consideration ASCAP's share of the net asset value of ASIB.

The ASIB Shares will be sold free from any security, mortgage, lien, charge, pledge, encumbrance and claim or right of any kind, and with all rights attaching thereto and subject to the terms and conditions of the ARSA and SPA.

2.3 NA and assumed liabilities

The audited NA of ASIB as at 31 December 2010 was RM230.2 million.

There are no liabilities to be assumed by AIH pursuant to the Proposed Disposal.

2.4 Information on AIH

AIH, the holding company of ASIB with 51% equity interest in ASIB, is a corporation established under the laws of Delaware, United States of America ("USA") and having its principal office at One Beaver Valley Road, Wilmington, Delaware 19803, USA.

AIH is a holding company with international subsidiaries capable of writing insurance and providing insurance related services.

The directors of AIH are as follows:

- (a) John J. Jones;
- (b) Theodore J. Kukawski;
- (c) Thomas J. Rowe;
- (d) Jack R. Servin; and
- (e) John C. Talley.

AIH is 100% owned by INA Corporation.

The directors of AIH do not hold any ownership interest (direct or indirect) in AIH.

INA Corporation holds a 100% direct ownership interest in AIH. It is the sole shareholder of AIH. There are no indirect shareholders of AIH.

2.5 Proposed utilisation of proceeds

We expect to utilise the cash proceeds arising from the Proposed Disposal within 24 months from the receipt of the proceeds arising from the Proposed Disposal in the following manner:

<u>Purpose</u>	<u>Notes</u>	<u>RM'000</u>
Repayment of bank borrowings	(a)	61,600
Working capital	(b)	55,000
Estimated expenses for the Proposed Disposal	(c)	400
		<u>117,000</u>

Notes:

- (a) The total outstanding borrowings of our Group as at LPD is about RM124.2 million. The specific borrowings to be repaid using the proceeds arising from the Proposed Disposal will be determined by our Board at its discretion in the best interest of our Group.

Any shortfall or excess in the funds allocated for repayment of bank borrowings will be funded from or used for working capital of our Group.

Strictly for illustrative purposes only, the estimated annual interest savings from the repayment of existing bank borrowings are approximately RM3.6 million, based on the weighted average interest rate applicable to our Group's outstanding borrowings as at 31 December 2010 of 5.8% per annum.

- (b) The proceeds from the Proposed Disposal for working capital are expected to be utilised for amongst others, any or all of the following:

- (i) refurbishment and renovation of hotel properties including repair, maintenance and upgrading to up-keep the condition and quality of the hotels to ensure our competitiveness in the market.
- (ii) strategic development and growth of our subsidiaries which include our hotel, travel and tours and coach building operations. Such development and growth may include geographical expansion, increasing distribution channels, and market and product development.
- (iii) expansion of the Group businesses depending on the investment and expansion strategies adopted by us in identifying opportunities which may arise.
- (iv) the Group existing and future working capital requirements which include amongst others, the payment to suppliers, payment of staff related expenses and other operating expenses.

Pending the utilisation of the proceeds from the Proposed Disposal for working capital, such proceeds allocated will be held in interest-bearing bank deposits and/or money market financial instruments.

- (c) Any shortfall or excess in the funds allocated for estimated expenses will be funded from or used for working capital of our Group.

In the event that the Proposed Disposal could not be completed, our Group would have to utilise its internally generated resources and/or alternative method or funding to implement any of the proposed activities as stated above.

2.6 Industry overview and future prospects of ASB Group

2.6.1 Overview of the Malaysian economy

The Malaysian economy is projected to grow by 5 - 6% in 2011. Growth is likely to improve during the course of the year with better growth performance in the second half of the year. The growth momentum will be underpinned by strong domestic demand, emanating primarily from private sector activity. Private consumption will be supported by favourable labour market conditions, higher disposable incomes, sustained consumer confidence and ready access to financing. Private investment is expected to remain strong, supported by capital spending by the domestic oriented industries given the high levels of capacity utilisation and positive business confidence, as well as the implementation of key initiatives announced by the Government under the Economic Transformation Programme ("ETP"). Meanwhile, the public sector will remain supportive of growth, with higher capital spending projected in the second half of 2011. This is mainly resulting from the implementation of new projects and the acceleration of on-going projects to promote private sector activity.

On the supply side, all economic sectors are expected to expand in 2011, supported mainly by the continued growth of domestic demand. The services and manufacturing sectors are expected to grow at a more moderate pace given the high statistical base of

2010 with the expansion being driven by domestic demand dependent sub-sectors. Trade related services and export-oriented manufacturing industries, however, will record slower growth, in line with the expected moderation in external demand. Meanwhile, growth in the agriculture and mining sectors is projected to strengthen, benefiting respectively from the expected turnaround in the production of industrial crops amid high commodity prices and the higher output of natural gas following the opening of two new gas fields. Further progress of on-going infrastructure projects and new projects due for implementation under the ETP will provide the impetus for the construction sector.

On the external front, the current account surplus is projected to amount to RM100.7 billion or 12.5% of Gross National Income ("GNI") in 2011, reflecting a higher trade surplus and sustained services account surplus. The trade surplus is expected to emanate primarily from robust commodity exports supported by higher prices and sustained demand, particularly from the region. Meanwhile, the surplus in the services account will be driven by higher receipts from the travel account with the expected increase in tourist arrivals, especially from the region, amid active promotional campaigns and increased access to the country through the low-cost airline carriers. On the financial account, foreign direct investment inflows are expected to increase given the favourable economic outlook, better corporate earnings, rising business confidence, further improvements in global foreign direct investment ("FDI") flows and the Government's wide ranging economic transformation projects. Direct investment abroad is expected to remain large as companies continue to seek new markets and business opportunities abroad.

The projected growth of the Malaysian economy is based on the expectation of moderate growth in advanced economies and a return to more normal growth rates by the Asian economies. Nevertheless, there remain risks to the growth projection which include sharper than expected deterioration in external conditions, significant volatility in capital flows given the continued uncertainty in international markets and higher than anticipated inflation emanating from supply driven factors.

Labour market conditions are expected to remain positive in 2011, with the continued expansion in employment stemming primarily from growth in the domestic-oriented sectors. Job creation will be led by the services sector, particularly in the distributive trade, finance and insurance, and communication sub-sectors. In the manufacturing sector, despite a more moderate growth in the export-oriented industries, gains in employment will remain firm, supported by the expansion in the consumer-related and construction-related clusters. The unemployment rate is projected to remain at 3.2% of the labour force in 2011.

Headline inflation is expected to increase further in 2011 to average at 2.5 - 3.5%, driven primarily by the significant increases in global commodity and energy prices. There are also some incipient signs that domestic demand factors could result in possible upward pressure on prices in the latter part of the year in line with the sustained expansion in economic activity.

(Source: Annual Report 2010, Bank Negara Malaysia)

2.6.2 Overview and prospects of Tourism industry in Malaysia

Tourism is a rapidly growing industry with tourist arrivals and receipts increasing 9.0% and 12.0% per annum, respectively, from 2004 to 2009. Despite the challenging environment in 2009 when countries worldwide suffered declines in tourist arrivals, Malaysia posted growth of 7.3% in tourist arrivals to 23.6 million while receipts increased 7.7% to RM53.4 billion. In terms of global ranking for 2009 by the United Nations World Tourism Organisation, Malaysia moved up two notches to ninth in tourist arrivals and 13th in receipts.

Efforts will be intensified towards maintaining Malaysia among the top 10 tourist destinations, particularly focusing on attracting a larger share of high-spending and long stay tourists. While continuing to promote existing tourism products such as eco-tourism, edu-tourism and health tourism as well as the Malaysia My Second Home ("MM2H") and

homestay programmes, the promotion of innovative tourism products will be accelerated. These include Malaysia's beautiful parks and gardens, culinary delights, arts tourism, women's golf and flower trails. In July 2010, Malaysia launched the inaugural 1Malaysia Contemporary Art Tourism ("MCAT"), which will be a 3-month event held from July to September annually, aimed at attracting high-yield tourists. The MCAT initiative not only showcases the works of local artists, but will establish Malaysia as a hub for art in the region. In addition, the Fabulous Food 1Malaysia, also a 3-month annual event, will display local best foods. These initiatives will contribute towards achieving the target of 24 million tourist arrivals and receipts of RM59.2 billion for 2010.

The accommodation and restaurant sub-sector grew 5.7% (January - June 2009: 2.5%), due to higher tourism-related activities. The average hotel occupancy rate stood at 58.0%, with the highest rate recorded in Pahang (76.8%). In 2010, the sub-sector is expected to grow 4.7% (2009: 2.8%), driven by higher tourist arrivals and the establishment of new hotels, particularly in the Klang Valley. The growing popularity of apartment hotels as an alternative to hotels, especially to cater for high-spending and long-stay tourists, is also expected to boost growth of the sub-sector. Total tourist receipts are envisaged to reach RM59.2 billion in 2010 (2009: RM53.4 billion), with expenditure on accommodation remaining the largest component at 31.2%, followed by shopping (29.0%) as well as food and beverages (17.2%). For the year 2010, tourist arrivals are expected to reach 24.0 million (2009: 23.6 million).

(Source: Economic Report 2010/2011, Ministry of Finance, Malaysia)

2.6.3 Overview and prospects of Information and Communication Technology ("ICT") industry in Malaysia

ICT is a key driver to promote higher value-added sources of growth. Greater use of ICT will not only support growth but also improve productivity and competitiveness. Recognising this, the Government continues to facilitate the development of the ICT industry through various initiatives such as upgrading information technology ("IT") infrastructure and networks, increasing IT utilisation across economic sectors and providing incentives. The industry is expected to gain greater growth momentum through projects under the National Key Economic Areas.

The communication sub-sector is expected to record higher growth of 7.3% in 2010 (2009: 6.0%), largely driven by robust performance of the telecommunications industry. During the first half of the year, the sub-sector grew 7.6% (January - June 2009: 5.3%), attributed to higher usage of cellular, broadband and third generation (3G) services. As at end-June 2010, the cellular phone subscriber base rose 10.2% to 31.5 million, registering a penetration rate of 108.8% (end-June 2009: 13.8%; 28.5 million; 100.8%), with prepaid users dominating almost 80% of total subscriptions. Growth was led by increasing smartphone applications as well as customised data plans and tariff packages. In addition, Mobile Virtual Network Operators have increased competition in the industry by successfully expanding the existing customer reach through the utilisation of unused bandwidth. Amid intense competition and various upgrading efforts by industry players, the cellular phone subscriber base is anticipated to expand 9.0% to 32.8 million, achieving penetration rate of 112.5% by year-end (2009: 8.8%; 30.1 million; 105.4%).

Increased short message services ("SMS") usage contributed positively to the growth of the cellular segment. SMS traffic expanded 11.8% to 47.4 billion during the first half of 2010 (January - June 2009: 23.3%; 42.4 billion) on account of rising demand for data services, especially during the 2010 FIFA World Cup season. Going forward, the bundling of SMS into cellular packages as well as higher adoption of mobile services such as mobile banking are expected to further increase SMS traffic. Additionally, higher uptake of 3G subscriptions is expected to boost growth of the cellular segment. As at end-June 2010, the number of 3G subscriptions grew 30.1% to 7.9 million (end-June 2009: 141.8%; 6.0 million), attributed to wider coverage and increasing demand for mobile internet access. The recent nationwide upgrade of 3G to 3.5G has also created demand, primarily from bandwidth intensive users.

(Source: Economic Report 2010/2011, Ministry of Finance, Malaysia)

2.6.4 Overview and prospects of the Construction industry (including the Property Development sector) in Malaysia

Growth in the construction sector is expected to improve to 5.4% in 2011 (2010: 5.2%), supported by expansion across all sub-sectors. In particular, the civil engineering sub-sector is expected to benefit from the implementation of projects under various Government initiatives. Apart from further progress on on-going projects such as the construction of the Second Penang Bridge, double-track rail networks, Low Cost Carrier Terminal and oil and gas terminal in Sabah, the civil engineering sub-sector will also be supported by the implementation of new major projects such as the construction of power plants in Terengganu and Sabah as well as the Klang Valley Light Rapid Transit extension. The non-residential sub-sector will be driven by the on-going construction of purpose-built office and retail space and the public sector expenditure on the building and upgrading of schools, hospitals and clinics, while the continued growth in housing demand and favourable financing environment will support growth in the residential sub-sector.

(Source: Annual Report 2010, Bank Negara Malaysia)

Construction activity in the residential sub-sector moderated following the completion of several high-end properties, particularly condominium and apartments. In addition, the performance of the sub-sector in the first half of 2010 was affected by the delay in launching new projects during the economic downturn in 2009 when developers were more cautious. However, following the economic recovery, coupled with attractive financing packages and affordable interest rates, housing starts recorded an increase of 3.2% in the second quarter of 2010 compared with the preceding quarter. In addition, the take-up rate of newly launched residential units improved to 19.5% for January - June 2010 (January - June 2009: 12.3%). Despite slower housing construction activity, high-end landed properties located in preferred areas were well-received with 100% take-up rate during launches. The aggressive promotion of MM2H programme also contributed to the strong take-up of high-end properties. With the strong domestic economic performance coupled with the buoyant secondary housing market, potential house buyers, particularly in the Klang Valley, Penang and Selangor are shifting from a wait-and-see attitude in 2009 to ready-to- commit in the second half of 2010.

(Source: Economic Report 2010/2011, Ministry of Finance, Malaysia)

2.6.5 Prospects of our major divisions

2.6.5.1 Hotels and Resorts Division

The prospects for our Hotels and Resorts division, operating under the Holiday Villa brand of hotels and resorts, are promising. Our Hotels & Resorts division can be widely categorised by its geographical location, i.e. hotels in Malaysia and overseas.

The Holiday Villa group was ranked in the 284th position in 2009 with over 3,400 rooms among the list of 300 hotels and resorts worldwide in terms of room inventory as published in a Special Report : Hotel's 325 in October 2010 issue of HOTELS, a leading international hotel magazine that gathered the report through an on-line survey. Currently, the Holiday Villa group has expanded to over 6,000 rooms.

Our Hotels and Resorts division is continuously expanding its operations and in this respect, we are moving aggressively in securing hotel management agreements with hotel owners and/or developers as this is believed to be a capital-efficient means of delivering sustained growth for our hotel business and a strategy that allows us to focus on our core competency in managing hotel operations.

In 2010, our Holiday Villa brand made its debut in Madinah, Saudi Arabia (337 rooms). We have also signed management services agreements for Holiday Villa hotels in Kota Bharu (opening in 2012 with 114 rooms) and Guangzhou, People's Republic of China (opening in June 2011 with 680 rooms).

Meanwhile, we have entered into a joint venture agreement to develop a 200-room hotel/service apartment in a prime location within the Kuala Lumpur City Centre area with 2 minutes' walk to the Petronas Twin Towers.

With these plans in place, our Hotels and Resorts division can further enhance its growth as a full international hotel operator and manager with hotels in all continents. Such good portfolio will ensure our Hotels and Resorts division continues to generate sustainable growth in earnings (currently achieving an average gross operating profit of 39%) and value in the medium to long term.

This division (including share of results of associate) contributed RM74.5 million, RM9.7 million and RM8.1 million to our Group's revenue of RM221.9 million, profit before tax of RM7.4 million and profit after tax of RM6.5 million respectively for FYE 31 December 2010.

2.6.5.2 ICT Division

Our ICT division is primarily represented by Unified Communications Holdings Limited Group ("UC Group"), which is principally involved in offering solutions to mobile network operators and integrated telecommunications service providers addressing specific business optimisation problem. Currently organised into three core business units namely:

- (a) A mobile value-added-services business unit ("VAS BU") - addressing content driven mobile VAS solutions, systems and managed services;
- (b) A mobile technology business unit ("TECH BU") – addressing mobile messaging and signalling solutions, systems and managed services; and
- (c) An operation support systems business unit ("OSS BU") - addressing operation support system solutions, systems and managed services.

The businesses of UC Group come from three (3) main regions of focus namely, South East Asia ("SEA"), South Asia ("SA") and Middle East & Africa ("MEA").

Prospects of TECH BU and VAS BU

For the immediate year of 2011, more intense competition is expected from both traditional competitors of TECH BU and VAS BU and the more prevalent threat of certain core network and switch equipment vendors becoming new competitors in the space in which both TECH BU and VAS BU operate. Henceforth, differentiation will be the key and UC Group has made headway in 2010 to enhance features and capabilities of the software products of these business units and to further raise the quality and capability of its solution consulting, software product development and service delivery functions - all to ensure customer satisfaction and loyalty.

For the immediate term, lower expectation is placed on the prospect of MEA underpinned by the civil unrest and political instability in the region. However, as a mitigation factor to this adverse development, some of the managed service contracts implemented in both SA and SEA are expected to cushion the revenue and profit impact for 2011 brought about by the development in MEA.

On a medium-term horizon of three (3) years of 2011 - 2013, some of the newer software applications and platform products from TECH BU and VAS BU

are expected to provide growth prospects for UC Group given their early stage in product life cycle in all regions of focus, i.e. SEA, SA and MEA. Internet protocol ("IP")-driven mobile value added services, advertisement supported or funded services and interactive mobile marketing are the key high growth areas that have been identified.

Prospects of OSS BU

OSS BU has seen encouraging growth since its inception in 2006 and is expected to continue the momentum in 2011 and beyond, stemming from the rapid growth in mobile data consumption - of the mobile broadband/mobile internet variety - across SEA. This trend will continue to drive the demand for solutions to manage quality of service for not only traditional core network, but also internet protocol network.

Accelerating growth

In accelerating the realising of the plan to establish UC Group as a significant player in the IP-driven mobile value-added services and optimisation solutions, plans are in place to realise this growth objective by acquisition and strategic investment in 2011.

This division (including share of results of associate) contributed RM43.1 million, RM6.6 million and RM5.8 million to our Group's revenue of RM221.9 million, profit before tax of RM7.4 million and profit after tax of RM6.5 million respectively for FYE 31 December 2010.

2.6.5.3 Travel and Tours Division

ASB Group's Travel and Tours division is represented by Orient Escape Travel Sdn Bhd ("OET") and Synergy Tours Sdn Bhd.

OET is a full-service travel agency dedicated to providing corporate, leisure and meetings, management, and incentives travel and tours services with extended related services to meet our clients' needs for global travel insurance cover, foreign currency exchange services, travel visas as well as exclusive services tailor made to their specific requirements.

In year 2011, OET's focus is to monitor trends in travel and tourism demands so as to anticipate and adapt products to the changing demands. OET will also concentrate on market and product diversification to reduce the heavy dependence on traditional markets and to increase yield.

Synergy Tours, the trading name for Synergy Tours Sdn Bhd, specialises in inbound travel and tours and is one of the leading players in Malaysia for inbound travel from the Latin-European countries of Italy, France and Spain.

Synergy Tours is presently looking at three possible ways of stimulating growth:

- (a) Regional Expansion: Expanding the inbound business to Indonesia, Thailand, Cambodia and Laos.
- (b) Expanding sales of Synergy Tours' products and services of SEA into different markets including by merger and acquisition of web based operators in Europe to distribute direct to consumers/retailers.
- (c) Strategic alliances with large tour operators by integrating our products in their distribution in the Europe market.

This division contributed RM68.1 million, RM0.8 million and RM0.8 million to our Group's revenue of RM221.9 million, profit before tax of RM7.4 million and profit after tax of RM6.5 million respectively for FYE 31 December 2010.

2.6.5.4 Property Development Division

Our Property Development division, mainly represented by Advance Synergy Realty Sdn Bhd ("ASR"), is expected to enjoy positive outlook for its activities as ASR has established itself as a reputable developer in Kuching, Sarawak.

In 2010, ASR completed the development of Matang Jaya II in Kuching, a project consisting of 59 units of various types of residential houses. Meanwhile, the construction of Kenny Hill Villas in Kuching, a project consisting of 14 units of three-storey semi-detached luxury homes located within the highly desirable Kenny Hill has started. This project is expected to be completed in June 2012.

In April 2011, ASR has commenced the development of another project consisting of 36 units residential houses in Matang Jaya, Kuching. In addition, ASR anticipates to obtain the approval for another project consisting of 279 units of various types of residential houses and commercial properties in Kuching, Sarawak.

In the meanwhile, our Property Development division is also actively seeking out suitable acquisition to increase its land bank.

This division contributed RM11.2 million, RM0.7 million and RM0.5 million to our Group's revenue of RM221.9 million, profit before tax of RM7.4 million and profit after tax of RM6.5 million respectively for FYE 31 December 2010.

3. OTHER SALIENT TERMS OF THE SPA

The other salient terms of the SPA are as follows:

- 3.1 AllH shall pay the consideration in cash on completion.
- 3.2 The completion shall take place on the date which is three (3) business days after the date on which the last of the conditions (pursuant to the SPA) to be satisfied or such other date and/or place as is mutually agreed between the parties in writing.
- 3.3 At the completion, the parties shall do all those things respectively required of them pursuant to the SPA (such as deliver of documents to give effect to the Proposed Disposal) and the AllH shall pay the price as stated in the SPA to ASCAP or as ASCAP directs in writing by transfer of funds for same day value to such account as shall have been notified to AllH by ASCAP at least three (3) business days before the completion date.
- 3.4 AllH is not obliged to complete the SPA unless:
 - (a) ASCAP and ASB comply with all their obligations under the SPA; and
 - (b) the purchase of all the ASIB Shares is completed simultaneously.
- 3.5 If:
 - (a) at any time before the completion, AllH considers that ASCAP and/or ASB is in breach of any provisions of the SPA (whether such breach amounts to a repudiatory breach or not) or if ASCAP and/or ASB gives a notice pursuant to the SPA notifying AllH if we become aware of a fact or circumstance which constitutes or which would or might constitute a breach (whether repudiatory in nature or not) of the relevant warranties clauses in the SPA or which would or might cause the relevant warranty clause to be untrue, inaccurate or misleading if given in respect of the facts or circumstances as at completion; or

- (b) if the completion does not take place on the completion date due to ASCAP fails to comply with any of its obligations under the SPA (whether such failure amounts to a repudiatory breach or not),

AllH may by notice to ASCAP elect to, without prejudice to any other remedies available to it:

- (a) proceed to completion to the extent reasonably practicable (but if AllH exercise its rights pursuant to this clause, the completion of the purchase of some of the ASIB Shares does not affect AllH's rights in connection with the others);
- (b) defer the completion to such date as AllH may specify, in which case the provisions of the SPA apply as if that other date is the completion date; or
- (c) terminate the SPA, in which case:
 - (i) ASCAP shall indemnify AllH, and keep AllH indemnified, on demand against all its costs relating to the negotiation, preparation, execution or termination of the SPA and the satisfaction of any condition pursuant to the SPA; and
 - (ii) each party's further rights and obligations cease immediately on termination, but termination does not affect a party's accrued rights and obligations at the date of termination.

In addition, AllH will be entitled to seek specific performance of ASCAP's and/or ASB's obligations under the SPA and/or damages.

- 3.6 If the completion takes place (whether or not pursuant to an election under the relevant clause in the SPA) and there is a warranty claim by AllH, ASCAP shall pay AllH on demand an amount equal to the reduction caused in the value of the ASIB Shares to AllH.
- 3.7 ASCAP shall indemnify AllH, and keep AllH indemnified, on demand against each loss, liability and cost which AllH incurs whether before or after the start of an action arising (directly or indirectly) out of:
 - (a) the settlement of a claim against ASCAP in respect of a breach or an alleged breach of any provision of the SPA or the enforcement of a settlement; and
 - (b) legal proceedings against ASCAP in respect of a breach or an alleged breach of any provision of the SPA in which judgment is given for AllH or the enforcement of the judgment.

4. RATIONALE FOR THE PROPOSED DISPOSAL

Pursuant to the 2nd OS Court Order, ASCAP is compelled to perform the Proposed Disposal. In any event, the Group is expected to benefit from the cash proceeds arising from the Proposed Disposal and the Proposed Disposal is in line with the Group's plan to streamline and focus its resources.

5. COMPLETION RISK FACTOR

- 5.1 The completion of the Proposed Disposal is conditional upon the approval of our shareholders.
- 5.2 However, in the event that the outcome of any appeal or proceedings whatsoever filed or that may be filed by ASCAP in any court against or in connection with the 2nd OS Court

Order, the MOF Approval and/or any legal proceedings in connection with the Proposed Disposal is in favour of ASCAP, the Proposed Disposal may not be completed.

- 5.3 In the event that any of the terms and conditions of SPA are not fulfilled and/or in any event of breach, the Proposed Disposal may not be completed.

6. EFFECTS OF THE PROPOSED DISPOSAL

6.1 Issued and paid-up share capital

The Proposed Disposal has no effect on the share capital as it does not involve any issuance of securities.

6.2 Shareholdings of our substantial shareholders

The Proposed Disposal has no effect on the substantial shareholders' shareholdings as it does not involve any issuance of securities.

6.3 NA, NA per share, Gearing, Earnings and EPS

The proforma effects of the Proposed Disposal on the NA, NA per share, gearing, earnings and EPS on the ASB Group are illustrated below:

	Audited consolidated statement of financial position as at 31 December 2010 RM'000	Proforma I ⁽ⁱⁱ⁾ RM'000
Equity attributable to owners of the parent		
Share capital	146,448	146,448
Share premium	117,317	117,317
Other reserves	7,355	6,216 ⁽ⁱⁱⁱ⁾
Retained earnings	70,416	74,131 ⁽ⁱⁱⁱ⁾
ICULS ⁽ⁱ⁾ - equity component	115,340	115,340
Shareholders' funds	456,876	459,452
Number of shares in issue ('000)	488,160	488,160
NA	456,876	459,452
NA per share (RM)	0.94	0.94
Gearing ratio (times)	0.26	0.12 ⁽ⁱⁱⁱ⁾
Total cash and cash equivalents	83,747	138,747 ^(iv)

Notes:

- (i) 2% 10-Year Irredeemable Convertible Unsecured Loan Stocks at 100% of the nominal value of RM0.15 each.
- (ii) After adjusting for the estimated gain on disposal of about RM3.7 million which includes the realisation of other reserve of approximately RM1.1 million to the retained earnings following the completion of the Proposed Disposal and the estimated expenses of the Proposed Disposal amounting to approximately RM0.4 million.
- (iii) After incorporating the cash proceeds of RM117.0 million arising from the Proposed Disposal and the repayment of bank borrowings of RM61.6 million.
- (iv) After incorporating the cash proceeds of RM117.0 million arising from the Proposed Disposal and the repayment of bank borrowings of RM61.6 million and the estimated expenses of the Proposed Disposal amounting to approximately RM0.4 million.

The proforma effects of the Proposed Disposal will result in a estimated gain on disposal of about RM3.7 million which includes the realisation of other reserve of approximately RM1.1 million to the retained earnings following the completion of the Proposed Disposal and the estimated expenses of the Proposed Disposal amounting to approximately RM0.4 million translating to an increase in EPS of approximately 0.78 sen. This gain on disposal is one-off and it is pertinent to note that ASIB contributed profit after tax of RM11.2 million to ASB Group's audited financial results for FYE 31 December 2010.

Strictly for illustration purposes only, assuming that the Proposed Disposal was completed on 1 January 2010, being the beginning of the FYE 31 December 2010, the proforma basic EPS and the proforma diluted EPS of our Group for FYE 31 December 2010 would have been as follows:

	Proforma Basic EPS ^(iv) (sen)	Proforma Diluted EPS ^(v) (sen)
Audited EPS for the FYE 31 December 2010	0.70	0.50
Less: Loss of profit arising from the cessation of equity accounting for ASIB's results	(2.35)	(1.20)
Add: Proforma gain on the Proposed Disposal ⁽ⁱ⁾	3.13	1.60
Add: Savings in interest (net of tax) from repayment of bank borrowings of RM61.6 million using the proceeds arising from the Proposed Disposal ⁽ⁱⁱ⁾	0.75	0.39
Add: Interest income (net of tax) earned on placement of cash proceeds from the Proposed Disposal for working capital in short-term deposits with licensed financial institutions ⁽ⁱⁱⁱ⁾	0.17	0.09
Proforma EPS for the FYE 31 December 2010	2.40	1.38

Notes:

- (i) Based on the proforma gain on disposal of about RM14.9 million arising from the Proposed Disposal which includes the estimated expenses of the Proposed Disposal amounting to approximately RM0.4 million.
- (ii) Computed based on the weighted average interest rate applicable to our Group's outstanding borrowings as at 31 December 2010 of 5.8% per annum. The estimated interest savings from the repayment of bank borrowings of RM61.6 million are approximately RM3.6 million.
- (iii) Assuming the proceeds are placed in short term deposits earning interest at 2.0% per annum.
- (iv) Calculated based on weighted average number of ordinary shares in issue of 476,204,623.
- (v) Calculated based on weighted average number of ordinary shares in issue after deemed conversion of the remaining ICULS of 928,932,452.

7. APPROVALS REQUIRED

The Proposed Disposal is conditional upon the approval of our shareholders being obtained at the forthcoming EGM.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors of ASB and/or major shareholders of ASB, and/or any person connected to them has any interests, direct or indirect, in the Proposed Disposal.

9. DIRECTORS' RECOMMENDATION

Our Board after having considered all aspects of the Proposed Disposal including but not limited to the cash proceeds of RM117.0 million to be received as additional cashflow and the objectives and benefits of the Proposed Disposal as described in Sections 2.5 and 4 of this Circular and having regard to the outcome of various legal proceedings as more particularly stated in the summary of legal proceedings set out in Section 1 of this Circular and in particular the 1st OS Order and the 2nd OS Court Order which brought into effect the SPA, is of the opinion that the Proposed Disposal is in the best interest of ASB Group and recommends that you vote in favour of the ordinary resolution to be tabled at the forthcoming EGM to give effect to the Proposed Disposal.

10. OTHER CORPORATE PROPOSALS

Save for the Proposed Disposal, there are no other intended corporate exercises which have been announced by our Company but not yet completed prior to the printing of this Circular.

The Proposed Disposal is not conditional upon any other corporate exercises.

11. ESTIMATED TIMEFRAME FOR COMPLETION OF THE PROPOSED DISPOSAL

Barring any unforeseen circumstances and subject to the approval of our shareholders being obtained, the Proposed Disposal is expected to be completed by the first half of 2011.

12. EGM

We will hold our EGM (for which the notice is enclosed in this Circular) at the Auditorium, Level 4, The Podium, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 6 June 2011 at 10.00 a.m. for the purpose of considering and if thought fit, passing the ordinary resolution to give effect to the Proposed Disposal.

If you are unable to attend and vote in person at our forthcoming EGM, you should complete, sign and return the enclosed Proxy Form in accordance with the instructions printed therein as soon as possible, and deposit the same at our Registered Office at Level 3, East Wing, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan not less than forty-eight (48) hours before the time appointed for holding the EGM. However, you may still attend and vote in person at the EGM should you subsequently wish to do so, even if you have already lodged the Proxy Form for the EGM.

13. FURTHER INFORMATION

We advise you to refer to the attached appendices for further information.

Yours faithfully
For and on behalf of the Board of
ADVANCE SYNERGY BERHAD

YONG TECK MING
Independent Non-Executive Director

INFORMATION ON ASIB

1. HISTORY AND BUSINESS

ASIB was incorporated in Malaysia on 26 October 1995 under the name of Perdana CIGNA Insurance Berhad to acquire the ongoing insurance business of Insurance Company of North America which has been in operation in Malaysia since 1948. It is a member of the ACE Group of Companies®, a global leader in insurance and reinsurance with offices in more than 50 countries worldwide. ASIB is a joint-venture entity between AIIH and ASCAP with AIIH holding the controlling stake of 51%.

ASIB is principally engaged in the underwriting of all classes of general insurance business and is licensed to do so by BNM under the Insurance Act 1996.

2. SHARE CAPITAL

The authorised and issued and paid-up share capital of ASIB as at 30 April 2011 are as follows:

Ordinary shares	No. of ordinary shares of ASIB ("ASIB shares")	Par value per share	Amount
		RM	RM
Authorised	100,000,000	1.00	100,000,000
Issued and paid-up	100,000,000	1.00	100,000,000

3. SUBSTANTIAL SHAREHOLDERS

Based on the Register of Substantial Shareholders, the substantial shareholders of ASIB and their respective shareholdings as at 30 April 2011 are as follows:

Substantial Shareholders	Country of Incorporation	< ----- Direct ----- >		<----- Indirect ----->	
		No. of ASIB shares of RM1.00 each	%	No. of ASIB shares of RM1.00 each	%
AIIH	United States of America	51,000,000	51	-	-
ASCAP	Malaysia	49,000,000	49	-	-

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INFORMATION ON ASIB (continued)

4. DIRECTORS

Based on the Register of Directors and Register of Directors' Shareholdings of ASIB, the directors of ASIB and their respective shareholdings as at 30 April 2011 are as follows:

Directors	Designation / Nationality	< -- Direct --- >		<--- Indirect --->	
		No. of ASIB shares	%*	No. of ASIB shares	%*
Lim Poh Ho	Director/ Malaysian	-	-	-	-
Rajbir Singh Nanra	Director/ Australian	-	-	-	-
Stephen Barry Crouch	Director / Australian	-	-	-	-
Daniel Andrew Albert Vanderkemp	Director/ Australian	-	-	-	-

5. SUBSIDIARY AND ASSOCIATED COMPANIES

As at 30 April 2011, ASIB does not have any subsidiaries or associated companies.

6. SUMMARY OF FINANCIAL DATA

	2008 ⁽ⁱ⁾	2009 ⁽ⁱⁱ⁾	2010 ⁽ⁱⁱⁱ⁾
	RM'000	RM'000	RM'000
Revenue	199,189	225,684	245,955
Profit before taxation	24,601	39,358	44,945
Taxation	(6,150)	(10,072)	(11,562)
Profit after taxation	18,451	29,286	33,383
Gross EPS (sen)	24.60	39.36	44.95
Net EPS (sen)	18.45	29.29	33.38
Issued and paid-up share capital ('000)	100,000	100,000	100,000
Shareholders' funds	175,819	198,774	230,177
NA	175,819	198,774	230,177
NA per share (RM)	1.76	1.99	2.30
Current ratio	Not Applicable	Not Applicable	Not Applicable
Total borrowings (all interest-bearing debts)	-	-	-
Gearing ratio (times)	-	-	-

INFORMATION ON ASIB (continued)

Notes:

- (i) ASIB recorded a total revenue of RM199.2 million for the FYE 31 December 2008 compared to RM183.9 million for the preceding year ended 31 December 2007. The increase was mainly due to Gross Written Premium growing by 8% from RM174.8 million to RM188.8 million underpinned by positive growth from its major lines of business. This resulted in higher profit after tax of RM18.5million for the FYE 31 December 2008 compared to RM13.4 million for the FYE 31 December 2007.
- (ii) ASIB recorded total revenue of RM225.7 million for the FYE 31 December 2009 compared to RM199.2 million for the preceding year ended 31 December 2008. In terms of Gross Written Premiums, ASIB registered a healthy growth of 15.0% from RM188.8 million in 2008 to RM217.1 million in 2009. As a result, profit after tax rose 58.4% from RM18.5 million in 2008 to RM29.3 million in 2009.
- (iii) ASIB recorded total revenue of RM246.0 million for the FYE 31 December 2010 compared to RM225.7 million for the preceding year ended 31 December 2009. As a result, profit after tax rose 14.0% from RM29.3 million in 2009 to RM33.4 million in 2010.
- (iv) Comparatives have been restated due to changes made in accounting policies following adoption of FRS 4 "Insurance Contracts" on 1 January 2010.

There were no exceptional or extraordinary items in any of the financial years under review.

The accounting policies adopted by ASIB are generally similar to those adopted by other corporations from the same industry.

The financial statements of ASIB for the financial years under review were not subjected to any audit qualification.

7. MATERIAL CONTRACTS

ASIB does not have any material contracts not being contracts entered into in the ordinary course of business as at 30 April 2011.

8. MATERIAL LITIGATION

ASIB does not have any material litigation, claims or arbitration including those pending or threatened as at 30 April 2011. For the purpose of this paragraph, material litigation, claims or arbitration do not include those arising from contracts of insurance underwritten in the ordinary course of business of ASIB.

9. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

ASIB did not have any material commitments and contingent liabilities as at 30 April 2011. For the purpose of this paragraph, contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of ASIB.

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AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010

Company No.

364935	P
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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2010

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

364935

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2010

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AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

CORPORATE INFORMATION**BOARD OF DIRECTORS**

Dato' Azman Shah bin Haron (term expired on 22.03.2011)	(Independent Non-Executive Chairman)
Rajbir Singh Nanra	(Chief Executive Officer)
Lim Poh Ho	(Independent Non-Executive Director)
Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)	(Non Independent Non-Executive Director)
Neil Treleaven Spettigue (resigned on 29.03.2010)	(Non Independent Non-Executive Director)
Stephen Barry Crouch	(Non Independent Non-Executive Director)

AUDIT COMMITTEE

Lim Poh Ho	(Chairman)
Dato' Azman Shah bin Haron (term expired on 22.03.2011)	
Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)	
Neil Treleaven Spettigue (resigned on 29.03.2010)	

SECRETARIES

Wong Siew Yeen (appointed on 28.10.2010)
Chong Swee Yoon (resigned on 28.10.2010)
Cheong Choon Yin

AUDITORS

PricewaterhouseCoopers

REGISTERED OFFICE / PRINCIPAL PLACE OF BUSINESS

Level 26, Menara Weld
76 Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.	
364935	P

ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITY

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

FINANCIAL RESULTS

	RM
Net profit for the financial year	<u>33,382,939</u>

DIVIDEND

The Directors do not recommend any final dividend for the financial year ended 31 December 2010.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework"), issued by Bank Negara Malaysia ("BNM") for insurers.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

364935

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**BAD AND DOUBTFUL DEBTS**

Before the financial statements 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 render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

364935	P
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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CHANGE OF CIRCUMSTANCES**

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature except as disclosed Note 36 to the financial statements.

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

SHARE CAPITAL

There were no new shares issued by the Company during the financial year.

CORPORATE GOVERNANCE

The Board is satisfied that the Company has substantially complied with the prescriptive applications in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers.

Audit Committee

The Audit Committee assists the Board in its oversight of the integrity of the Company's financial statements and financial reporting process, the Company's compliance with legal and regulatory requirements, the system of internal controls, the audit process, the performance of the Company's internal auditor and the performance and independence of the Company's external auditors.

The Audit Committee comprises of three non-executive Directors:

Lim Poh Ho (Chairman)
Dato' Azman Shah bin Haron (term expired on 22.03.2011)
Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)
Neil Treleaven Spettigue (resigned on 29.03.2010)

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

364935

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**Nominating Committee

The Nominating Committee assists the Board in the ongoing processes of appointment and performance assessments of Directors, the Chief Executive Officer and key senior officers. The Committee ensures that the Board comprises a minimum of four non-executive directors with the requisite mix of skills, experience and attributes to contribute effectively to the Board.

The Nominating Committee comprises of all the Board members:

Lim Poh Ho (Acting Chairman)
 Dato' Azman Shah bin Haron (term expired on 22.03.2011)
 Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)
 Neil Treleaven Spettigue (resigned on 29.03.2010)
 Stephen Barry Crouch
 Rajbir Singh Nanra

Remuneration Committee

The Remuneration Committee oversees the Company's compensation policies, including issues relating to pay and performance of Directors, Chief Executive Officer and senior officers of the Company.

The Remuneration Committee comprises of all the Board members:

Lim Poh Ho (Acting Chairman)
 Dato' Azman Shah bin Haron (term expired on 22.03.2011)
 Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)
 Neil Treleaven Spettigue (resigned on 29.03.2010)
 Stephen Barry Crouch

During the financial year, the Committee reviewed the fees payable to Directors in consideration of individual Directors' performance and participation.

Risk Management Committee

The Risk Management Committee oversees the Company's risk management process to ensure the adequacy and integrity of sound internal controls and risk management practices. It is recognised that such controls and practices are designed to maximise the mitigation of foreseeable risks rather than to eliminate the risk of failure.

The Risk Management Committee comprises of four non-executive directors:

Lim Poh Ho (Chairman)
 Dato' Azman Shah bin Haron (term expired on 22.03.2011)
 Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)
 Neil Treleaven Spettigue (resigned on 29.03.2010)
 Stephen Barry Crouch

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**

The number of Board and Board Committee meetings held during the financial year is set out below.

	<u>Board of Directors</u>	<u>Meetings of Committees</u>			
		<u>Audit</u>	<u>Nominating</u>	<u>Remuneration</u>	<u>Risk Management</u>
Number of meetings held during the financial year	6	6	1	2	4
	<u>Number Attended</u>	<u>Number Attended</u>	<u>Number Attended</u>	<u>Number Attended</u>	<u>Number Attended</u>
Dato' Azman Shah bin Haron (Term expired on 22.03.2011)	6	6	1	2	4
Lim Poh Ho	6	6	1	2	4
Daniel Andrew Albert Vanderkemp (Appointed on 29.03.2010)	5/5	5/5	0/0	1/1	3/3
Neil Treleaven Spettigue (Resigned on 29.03.2010)	1/1	1/1	1/1	1/1	1/1
Stephen Barry Crouch	6	*	1	2	4
Rajbir Singh Nanra	6	*	1	*	*

* - not applicable as the Director is not a member of the committees.

DIRECTORS

The Directors who have held office since the date of the last report are as follows:

Dato' Azman Shah bin Haron (term expired on 22.03.2011)
Lim Poh Ho
Daniel Andrew Albert Vanderkemp (appointed on 29.03.2010)
Neil Treleaven Spettigue (resigned on 29.03.2010)
Stephen Barry Crouch
Rajbir Singh Nanra

In accordance with Article 66 of the Company's Articles of Association, Mr Daniel Andrew Albert Vanderkemp and Mr Stephen Barry Crouch retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**DIRECTORS' BENEFITS**

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration disclosed in Note 25 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 IN SHARES

According to the register of Directors' shareholdings, none of the Directors in office at the end of the financial year held any interest in shares in, or debentures of the Company or its related corporations during the financial year.

ULTIMATE HOLDING COMPANY

The Directors regard ACE Limited, a company incorporated in the Zurich, Switzerland, as the ultimate holding company of the Company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 29 March 2011.



LIM POH HO
DIRECTOR

Kuala Lumpur



RAJBIR SINGH NANRA
DIRECTOR

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET AS AT 31 DECEMBER 2010

	Note	31.12.2010 RM	31.12.2009 RM	1.1.2009 RM
ASSETS				
Plant and equipment	4	5,758,772	6,496,668	5,997,655
Intangible assets	5	2,697,673	969,755	1,220,169
Investments		362,362,245	305,286,907	263,038,695
Available-for-sale	6	239,680,245	115,141,742	170,108,484
Loans and receivables	7	122,682,000	190,145,165	92,930,211
Reinsurance assets	8	70,410,393	41,751,831	49,864,795
Insurance receivables	9	17,076,354	12,562,161	12,193,614
Other receivables	10	13,298,279	7,681,339	6,010,416
Deferred tax assets	15	-	-	670,272
Tax recoverable		416,003	1,036,484	-
Cash and bank balances		2,119,607	7,165,948	726,662
Total assets		474,139,326	382,951,093	339,722,278
LIABILITIES				
Insurance contract liabilities	11	210,021,947	151,977,068	142,146,982
Investment contract liabilities	12	3,614,422	4,226,364	2,717,081
Insurance payables	13	18,052,119	18,259,145	14,046,574
Other payables	14	10,742,212	7,503,526	8,131,438
Deferred tax liabilities	15	1,531,183	2,211,155	-
Current tax liabilities		-	-	240,715
Total liabilities		243,961,883	184,177,258	167,282,790
EQUITY				
Share capital	16	100,000,000	100,000,000	100,000,000
Equity reserve		1,009,858	791,387	326,973
Available-for-sale reserve		414,502	2,612,304	6,028,708
Retained earnings	17	128,753,083	95,370,144	66,083,807
Total equity		230,177,443	198,773,835	172,439,488
Total liabilities and equity		474,139,326	382,951,093	339,722,278

The accompanying notes are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.	
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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	2010 RM	2009 RM
Operating revenue	19	245,955,310	225,684,487
Gross earned premiums	20 (a)	224,719,369	204,474,450
Premiums ceded to reinsurers	20 (b)	(75,580,334)	(76,194,613)
Net earned premiums		149,139,035	128,279,837
Investment income	21	9,546,323	8,542,315
Realised gains and losses	22	3,756,413	8,755,064
Commission income		16,728,431	14,834,012
Other operating income	23	297,610	292,840
Other revenue		30,328,777	32,424,231
Gross benefits and claims paid	24 (a)	(49,312,901)	(51,458,768)
Claims ceded to reinsurers	24 (b)	12,829,877	15,928,394
Gross change in contract liabilities	24 (c)	(46,355,261)	2,837,636
Change in contract liabilities ceded to reinsurers	24 (d)	24,379,372	(8,112,964)
Net claims		(58,458,913)	(40,805,702)
Commission expense		(33,913,032)	(30,634,673)
Management expenses	25	(42,151,109)	(49,905,450)
Other expenses		(76,064,141)	(80,540,123)
Profit before taxation		44,944,758	39,358,243
Taxation	26	(11,561,819)	(10,071,906)
Net profit for the financial year		33,382,939	29,286,337
Earnings per share (sen)			
Basic	27	33	29

The accompanying notes are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

	Note	2010 RM	2009 RM
Net profit for the financial year		33,382,939	29,286,337
Other comprehensive loss:			
Fair value changes on AFS		269,087	3,803,769
Tax on fair value changes on AFS		(67,272)	(950,942)
Net realised gain transferred to Income Statement on disposal of AFS	22	(3,199,489)	(8,467,599)
Tax on realised gain transferred to Income Statement on disposal of AFS		799,872	2,198,368
Other comprehensive loss, net of tax		<u>(2,197,802)</u>	<u>(3,416,404)</u>
Total comprehensive income for the financial year		<u>31,185,137</u>	<u>25,869,933</u>

The accompanying notes are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.	
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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Note	Number of shares Units	Share capital RM	Non-Distributable ----->			Total RM
			Equity reserves RM	Available-for-sale reserve RM	Distributable Retained earning RM	
	100,000,000	100,000,000	791,387	2,612,304	95,370,144	198,773,835
At 1 January 2010						
Net profit for the financial year	-	-	-	-	33,382,939	33,382,939
Fair value changes on AFS	-	-	-	269,087	-	269,087
Tax on fair value changes on AFS	-	-	-	(67,272)	-	(67,272)
Net gain transfer to Income Statement on disposal of AFS	-	-	-	(3,199,489)	-	(3,199,489)
Tax on net gain transfer to Income Statement on disposal of AFS	-	-	-	799,872	-	799,872
Total comprehensive income for the financial year	-	-	-	(2,197,802)	33,382,939	31,185,137
Share-based long term incentive plan vested	-	-	389,140	-	-	389,140
Share-based long term incentive plan paid	-	-	(170,669)	-	-	(170,669)
Transactions with owners	-	-	218,471	-	-	218,471
At 31 December 2010	100,000,000	100,000,000	1,009,858	414,502	128,753,083	230,177,443

The accompanying notes are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

Note	Number of shares Units	Share capital RM	Non-Distributable		Distributable Retained earning RM	Total RM
			Equity reserves RM	Available-for-sale reserve RM		
	100,000,000	100,000,000	326,973	6,028,708	64,213,680	170,569,361
36	-	-	-	-	1,870,127	1,870,127
	100,000,000	100,000,000	326,973	6,028,708	66,083,807	172,439,488
	-	-	-	-	29,286,337	29,286,337
	-	-	-	3,803,769	-	3,803,769
	-	-	-	(950,942)	-	(950,942)
	-	-	-	(8,467,599)	-	(8,467,599)
	-	-	-	2,198,368	-	2,198,368
	-	-	-	(3,416,404)	29,286,337	25,869,933
18	-	-	523,966	-	-	523,966
	-	-	(59,552)	-	-	(59,552)
	-	-	464,414	-	-	464,414
	100,000,000	100,000,000	791,387	2,612,304	95,370,144	198,773,835

The accompanying notes are an integral part of these financial statements. 11

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

CASH FLOW STATEMENT**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

	2010	2009
	RM	RM
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the financial year	33,382,939	29,286,337
Adjustments for:		
Depreciation of plant and equipment	1,122,313	1,250,472
Amortisation of intangible assets	791,601	332,571
Realised gain on disposal of AFS securities	(3,317,733)	(8,467,599)
Realised loss on disposal of plant and equipment	827	53,785
Investment income	(9,413,673)	(8,597,612)
Accretion of discounts, net of (amortisation of premium)	(17,457)	22,938
Impairment loss	118,244	-
Allowance for bad and doubtful debts	377,758	12,570
Taxation	11,561,819	10,071,906
Profit from operations before changes in operating assets and liabilities	34,606,638	23,965,368
(Increase)/decrease in reinsurance assets	(28,658,562)	8,112,964
Increase in insurance receivables	(4,891,951)	(381,117)
Increase in other receivables	(4,685,466)	(2,187,840)
Increase in insurance contract liabilities	58,044,879	9,830,086
(Decrease)/increase in investment contract liabilities	(611,942)	1,509,283
(Decrease)/increase in insurance payables	(207,026)	4,212,571
Increase/(decrease) in other payables	3,238,686	(627,912)
Purchase of AFS investments	(251,694,890)	-
Purchase of LAR investments	(122,682,000)	(190,145,165)
Proceeds from sales of AFS investments	127,442,931	58,747,573
Proceeds from maturity of LAR investments	190,145,165	92,930,211
Interest income received	8,284,519	8,441,429
Dividend income received	167,722	548,919
Income taxes paid	(10,858,752)	(7,096,071)
Net cash (used)/generated from operating activities	(2,360,049)	7,860,299

The accompanying notes are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

	Note	2010 RM	2009 RM
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(390,442)	(1,804,491)
Purchase of intangible assets		(2,519,519)	(82,157)
Proceeds from disposal of plant and equipment		5,198	1,221
		<hr/>	<hr/>
Net cash used in investing activities		(2,904,763)	(1,885,427)
		<hr/>	<hr/>
CASH FLOW FROM FINANCING ACTIVITIES			
Increase in equity reserve		218,471	464,414
		<hr/>	<hr/>
Net cash generated from financing activities		218,471	464,414
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,046,341)	6,439,286
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		7,165,948	726,662
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	29	2,119,607	7,165,948
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010**1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION**

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The Directors regard ACE Limited, a company incorporated in Zurich, Switzerland, as the ultimate holding company of the Company.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 29 March 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies and comply with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

The financial statements also comply with the provisions of the Companies Act, 1965 and the Insurance Act, 1996 in all material aspects.

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)****(i) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and effective**

The new accounting standards, amendments and improvements to published standards and interpretations that are relevant and effective for the Company's financial year beginning on or after 1 January 2010 are as follows:

- FRS 4 "Insurance Contract"
- FRS 7 "Financial Instruments: Disclosures" and the related Amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related Amendments
- Amendment to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations"
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- IC Interpretation 14 "FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"
- Improvements to FRSs (2009)

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Company is set out in Note 36 to the financial statements.

The notes to the financial statements for the statement of financial position as at 1 January 2009 arising from the changes in accounting policies above have also been shown where they are affected by such changes.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

The Company will apply the following new standards, amendments to standards and interpretations from annual period beginning on 1 January 2011 or later periods:

Amendment to FRS 2	Share-based payment: Group cash-settled share-based payment transactions (effective from 1 January 2011)
Amendments to FRS 7	Financial instruments: Disclosures" and FRS 1 "First-time adoption of financial reporting standards (effective from 1 January 2011)
IC Interpretation 4	Determining whether an arrangement contains a lease (effective from 1 January 2011)
IC Interpretation 12	Service concession arrangements (effective from 1 July 2010)
IC Interpretation 17	Distribution of non-cash assets to owner (effective from 1 July 2010)
IC Interpretation 18	Transfers of assets from customers (effective prospectively for assets received on or after 1 January 2011)
IC Interpretation 19	Extinguishing financial liabilities with equity instruments (effective from 1 July 2011)
Improvements to FRS 2	Share based payments (effective from 1 July 2010)
Improvements for FRS 5	Non-current assets held for sale and discontinued operations (effective from 1 July 2010)
Improvements to FRS 101(revised)	Presentation of financial statements (effective from 1 January 2011)
Improvements to FRS 138	Intangible Assets (effective from 1 July 2010)
IC Interpretation 9	Reassessment of Embedded Derivatives (effective from 1 July 2010)

The adoption of the above revised standards, amendments and interpretations is not expected to have any significant impact to the financial statements of the Company.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line basis to allocate their cost to their residual values over the expected useful lives of the assets.

The expected useful lives of the property, plant and equipment are as follows:

Motor vehicles	5 years
Office equipment	5 - 10 years
Computer equipment	4 - 5 years
Furniture and fittings	5 - 10 years

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at each date of statement of financial position.

At each date of statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(f) on impairment of non financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged in the income statement.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Intangible assets**Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring in use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of 5 years.

(d) Financial assets

The Company classifies its financial assets into the following categories of available-for-sale ("AFS") and loans and other receivables ("LAR"). The classification is determined at initial recognition and depends on the purpose for which the financial assets were acquired.

AFS

AFS are non-derivative financial assets that are designated as available-for-sale and are not classified as LAR. AFS financial assets are initially recorded at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS financial assets are remeasured at fair value. Fair value gains or losses of monetary and non-monetary securities are reported as a separate components of equity until the investment is derecognised or investments is determined to be impaired. Fair value gains and losses of monetary securities denominated in foreign currency are analysed between translations differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; translation differences on non-monitory securities are reported as a separate component of equity until the investment is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to income statement.

LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, LAR are carried at amortised cost, using the effective yield method, less impairment losses. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Impairment of AFS securities**

The Company assesses at each date of statement of financial position, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Financial assets classified as AFS

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment, resulting in the recognition of an impairment loss.

If there is objective evidence that an impairment loss on financial asset classified as AFS has been incurred, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed through the income statement. Impairment losses previously recognised in the income statement on equity instruments are not reversed through the income statement.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Impairment of non-financial assets**

The carrying values of non-financial assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(g) Product classification

The Company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts are those contracts that do not transfer significant insurance risk.

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

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Insurance contracts

Premium from direct insurance contract

Premium of insurance contracts is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of premium debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the date of statement of financial position are accrued at that date.

Acquisition costs and deferred acquisition costs ("DAC")

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

Commission costs are deferred to the extent that these cost are recoverable out of future premium. All other acquisition costs are charged to the income statement in the financial year in which they are incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recognised in the income statement.

An impairment review is performed at each date of statement of financial position or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement.

DAC is also considered in the liability adequacy test for each accounting period. DAC is derecognised when the related contracts are either settled or disposed of.

For presentation purposes, DAC is net-off against premium liabilities in the financial statements.

Claims and expenses

Claims include all claims occurring during the financial year, whether reported or not, related external claims handling cost that are directly related to the processing and settlement of claim, a reduction for the value of salvage and other recoveries, and any adjustments to claim liabilities from previous financial year.

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ACE SYNERGY INSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

(h) Insurance contracts (continued)

Premium liabilities

Premium liabilities refer to the higher of:

- (a) the aggregate of the unearned premium reserves ("UPR"); or
- (b) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall company level.

UPR represent the portion of the gross premiums of insurance policies written net of the related reinsurance premiums ceded to qualified reinsurers that relate to the unexpired periods of the policies at the end of the financial year.

UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) time apportionment method for non-annual policies
- (iii) 1/24th method for all other classes of Malaysian general policies
- (iv) 1/8th method for all classes of overseas inward business

At each reporting date, the Company reviews its unexpired risks reserve ("URR") and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. The current estimate of future contractual cash flow is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and shall allow for expected future premium refunds.

If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in the income statement by setting up a provision for liability adequacy.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Insurance contracts (continued)

Claims liabilities

Claims liabilities are determined based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position.

The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions at best estimate and a PRAD calculated at the overall Company. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Reinsurance premiums ceded are recognised in the same accounting period as the original policy to which the reinsurance relates.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed facultative reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Premiums, claims and other transactions costs on assumed treaty reinsurance are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Insurance contracts (continued)

Reinsurance (continued)

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

Investment contract

Investment contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are initially measured at fair value being the transaction price excluding transaction costs directly attributable to the issue of the contract. Subsequent measurement of investment contracts at amortised cost uses the effective interest method. This method requires the determination of an interest rate (the effective interest rate) that exactly discounts to the net carrying amount of the financial liability, the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period if the holder has the option to redeem the instrument earlier than maturity.

The Company re-estimates at each reporting date the expected future cash flows and recalculates the carrying amount of the financial liability by calculating the present value of estimated future cash flows using the financial liability's original effective interest rate. Any adjustment is immediately recognised as income or expense in the profit or loss.

(i) Other revenue

Interest income, including the amount of amortisation of premiums and accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

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

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets. Gain and losses on the sale of investments are calculated as the difference between net sales proceeds and the amortised cost and are recorded on occurrence of the sale transaction.

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(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Insurance receivables**

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets.

(k) Employee benefitsShort term employee benefits

Wages, salaries, paid annual leave and sick leave and bonuses are accrued in the financial year in which the associated services are rendered by employees of the Company.

Post-employment benefits

The Company's contributions to the national defined contribution plan, the Employees' Provident Fund, are charged to the income statement in the financial year to which they relate.

Once the contributions have been paid, the Company has no further payment obligations.

Share-based long term incentive plan

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, ACE Limited ("ACE"). The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

Employees' services received in exchange for the share-based long term incentive plan is recognised as an expense in the Company's income statement over the vesting period of the grant with a corresponding increase in equity reserves.

The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all share grants issued in the current and prior financial years. There is no liability to the Company for the unamortised portion of the share grants issued. The amortised calculation incorporates the fair market value of ACE's common stock at grant date, in determining the expense amount.

At each date of statement of financial position, the Company revises its estimate of the number of options that are expected to become vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity reserves over the remaining vesting period.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Income taxes**

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the date of statement of financial position are used to determine deferred tax and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

(m) Foreign currencies

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling on the transaction dates. Foreign currency monetary assets and liabilities at date of statement of financial position are translated at the approximate rates of exchange ruling at that date. Exchange differences are taken to the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances excluding deposits which are held for investment purpose.

(o) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as liabilities when the obligation to pay is established.

(p) Fair value of financial instruments

The recognition method adopted for financial instruments recognised in the statement of financial position is disclosed in the individual accounting policy note associated with each item.

The Company's basis of estimation of fair values in the financial instruments is as follows:

- (i) Malaysian Government Securities are based on indicative market prices;
- (ii) Cagamas papers and other unquoted corporate debt securities are based on prices quoted by an average of 2 brokers; and
- (iii) Quoted investments are based on quoted market prices.
- (iv) The face values of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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ACE SYNERGY INSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated by Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are outlined below.

(i) Claims liabilities

Claims liabilities for each class of business are estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development, claims payment and the direct and indirect claims-related expenses. The claims liabilities also include a provision of risk margin for adverse deviation ("PRAD"). PRAD is a component of the value of the insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. For the purpose of this valuation basis, the level of confidence is at 75% at an overall Company level. The final selected estimates are based on a judgemental consideration of results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

The best estimate outstanding claims liabilities were assessed using four standard actuarial valuation methods:

- Chain Ladder (incurred cost model)
- Chain Ladder (paid claims model)
- Bornhuetter Fergusson method
- Average claim size method

(b) Critical judgements in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

4 PLANT AND EQUIPMENT

2010	Motor Vehicles RM	Office Equipment RM	Computer Equipment RM	Furniture and Fittings RM	Total RM
Net book value					
At beginning of financial year	109,352	2,100,575	1,875,939	2,410,802	6,496,668
Additions	-	59,441	331,001	-	390,442
Disposals	-	(5,309)	(716)	-	(6,025)
Depreciation charge	-	(361,009)	(437,566)	(323,738)	(1,122,313)
At end of financial year	109,352	1,793,698	1,768,658	2,087,064	5,758,772
At end of financial year					
Cost	396,758	3,517,886	6,070,816	3,269,740	13,255,200
Accumulated depreciation	(287,406)	(1,724,188)	(4,302,158)	(1,182,676)	(7,496,428)
Net book value	109,352	1,793,698	1,768,658	2,087,064	5,758,772
2009	Motor Vehicles RM	Office Equipment RM	Computer Equipment RM	Furniture and Fittings RM	Total RM
Net book value					
At beginning of financial year	188,703	1,209,365	2,024,399	2,575,188	5,997,655
Additions	-	1,183,414	412,743	208,334	1,804,491
Disposals	-	(332)	(3,423)	(51,251)	(55,006)
Depreciation charge	(79,351)	(291,872)	(557,780)	(321,469)	(1,250,472)
At end of financial year	109,352	2,100,575	1,875,939	2,410,802	6,496,668
At end of financial year					
Cost	396,758	3,482,010	5,768,375	3,269,740	12,916,883
Accumulated depreciation	(287,406)	(1,381,435)	(3,892,436)	(858,938)	(6,420,215)
Net book value	109,352	2,100,575	1,875,939	2,410,802	6,496,668

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

5 INTANGIBLE ASSETS

	2010 RM	2009 RM
Net book value		
At beginning of financial year	969,755	1,220,169
Additions	2,519,519	82,157
Amortisation charge	(791,601)	(332,571)
At end of financial year	2,697,673	969,755
At end of financial year		
Cost	4,244,698	1,725,179
Accumulated amortisation	(1,547,025)	(755,424)
Net book value	2,697,673	969,755

6 AVAILABLE FOR SALE

	31.12.2010 RM	31.12.2009 RM	1.1.2009 RM
At fair value			
Malaysian Government Securities	94,988,400	53,900,900	77,167,612
Malaysian government guaranteed loan	5,111,000	-	-
Unquoted bonds of corporations	136,595,600	56,399,700	75,437,000
Shares of corporations quoted in Malaysia	2,985,245	4,841,142	17,503,872
	239,680,245	115,141,742	170,108,484
Debt securities:			
Unquoted	236,695,000	110,300,600	152,604,612
Equity securities:			
Quoted in Malaysia	2,985,245	4,841,142	17,503,872
	239,680,245	115,141,742	170,108,484
The following investments will mature after 12 months			
Unquoted debt securities	194,504,600	100,164,100	107,509,679

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

6 AVAILABLE FOR SALE (CONTINUED)

	2010 RM	2009 RM
At beginning of financial year	115,141,742	170,108,484
Purchases	251,694,890	-
Disposal	(117,442,931)	(17,007,573)
Maturity	(10,000,000)	(41,740,000)
Fair value gains recorded in other comprehensive income	269,087	3,803,769
Amortisation	(355,762)	(410,522)
Accretion	373,219	387,584
At end of financial year	239,680,245	115,141,742
 Fair value investments		
Quoted market price	2,985,245	4,841,142
Valuation techniques - market observable inputs	236,695,000	110,300,600
	239,680,245	115,141,742

7 LOANS AND RECEIVABLES

	31.12.2010 RM	31.12.2009 RM	1.1.2009 RM
At amortised cost			
Fixed and call deposits with:			
Licensed banks in Malaysia	122,682,000	190,145,165	92,930,211

The loan and receivables are short term deposits with maturity less than 12 months.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

7 LOANS AND RECEIVABLES (CONTINUED)

Carrying values of instruments

	2010 RM	2009 RM
At beginning of financial year	190,145,165	92,930,211
Purchases	122,682,000	190,145,165
Maturity	(190,145,165)	(92,930,211)
At end of financial year	122,682,000	190,145,165

The carrying amounts of the fixed and call deposits approximate their fair value.

8 REINSURANCE ASSETS

	31.12.2010 RM	31.12.2009 RM	1.1.2009 RM
Reinsurance of insurance contracts (Note 11)			
Claims liabilities	66,131,203	41,751,831	49,864,795
Premium liabilities	4,279,190	-	-
Total Reinsurance Assets	70,410,393	41,751,831	49,864,795

9 INSURANCE RECEIVABLES

Due premiums including agents/brokers and co-insurers balances	14,136,213	9,315,993	10,590,528
Allowance for impairment	(662,780)	(286,647)	(274,077)
	13,473,433	9,029,346	10,316,451
Due from reinsurers and ceding companies	4,331,341	4,259,610	2,603,958
Allowance for impairment	(728,420)	(726,795)	(726,795)
	3,602,921	3,532,815	1,877,163
Total Insurance Receivables	17,076,354	12,562,161	12,193,614

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)
10 OTHER RECEIVABLES

	31.12.2010	31.12.2009	1.1.2009
	RM	RM	RM
Assets held under MMIP	8,709,009	2,684,134	1,833,943
Interest income due and accrued	2,307,676	1,376,202	1,893,119
Deposits	682,648	619,360	599,149
Other receivables	1,552,621	2,915,053	1,633,237
Prepayments	46,325	86,590	50,968
Total Other Receivables	13,298,279	7,681,339	6,010,416

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

11 INSURANCE CONTRACT LIABILITIES

Note	31.12.2010		31.12.2009		1.1.2009				
	Gross RM	Reinsurance RM	Gross RM	Reinsurance RM	Gross RM	Reinsurance RM			
General insurance	210,021,947	(70,410,393)	139,611,554	151,977,068	(41,751,831)	110,225,237	142,146,982	(49,864,795)	92,282,187

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

	31.12.2010		31.12.2009		1.1.2009				
	Gross RM	Reinsurance RM	Gross RM	Reinsurance RM	Gross RM	Reinsurance RM			
Provision for claims reported by policyholders	91,967,526	(43,976,890)	47,990,636	63,911,283	(31,318,455)	32,592,828	67,054,206	(37,329,205)	29,725,001
Provision for incurred but not reported claims ("IBNR")	48,696,116	(22,154,313)	26,541,803	30,397,098	(10,433,376)	19,963,722	30,091,811	(12,535,590)	17,556,221
Claims liabilities	140,663,642	(66,131,203)	74,532,439	94,308,381	(41,751,831)	52,556,550	97,146,017	(49,864,795)	47,281,222
Premium liabilities	69,358,305	(4,279,190)	65,079,115	57,668,687	-	57,668,687	45,000,965	-	45,000,965
	210,021,947	(70,410,393)	139,611,554	151,977,068	(41,751,831)	110,225,237	142,146,982	(49,864,795)	92,282,187

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

11 **INSURANCE CONTRACT LIABILITIES (CONTINUED)**

11 (i) Claims liabilities

	Note	2010			2009		
		Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
At 1 January		94,308,381	(41,751,831)	52,556,550	97,146,017	(49,864,795)	47,281,222
Effect of changes in assumptions for prior accident years		(5,318,721)	(539,015)	(5,857,736)	(5,095,600)	713,161	(4,382,439)
Increase in claims incurred/recoveries anticipated over the financial year		100,986,883	(36,670,234)	64,316,649	53,716,732	(8,528,591)	45,188,141
Claims paid during the financial year	24	(49,312,901)	12,829,877	(36,483,024)	(51,458,768)	15,928,394	(35,530,374)
As 31 December		140,663,642	(66,131,203)	74,532,439	94,308,381	(41,751,831)	52,556,550

11 (ii) Premium liabilities

	Note	2010			2009		
		Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
At 1 January		57,668,687	-	57,668,687	45,000,965	-	45,000,965
Premiums written during the financial year	20(a)	236,408,987	(79,859,524)	156,549,463	217,142,172	(76,194,613)	140,947,559
Premiums earned during the financial year		(224,719,369)	75,580,334	(149,139,035)	(204,474,450)	76,194,613	(128,279,837)
As 31 December		69,358,305	(4,279,190)	65,079,115	57,668,687	-	57,668,687

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

12 INVESTMENT CONTRACT LIABILITIES

	31.12.2010	31.12.2009	1.1.2009
	RM	RM	RM
Investment contract liabilities	3,614,422	4,226,364	2,717,081
		2010	2009
		RM	RM
At 1 January		4,226,364	2,717,081
Deposits		4,763,160	5,736,357
Withdrawals		(5,375,102)	(4,227,074)
As 31 December		3,614,422	4,226,364

The carrying amount of the investment contracts liabilities approximate fair value.

13 INSURANCE PAYABLES

	31.12.2010	31.12.2009	1.1.2009
	RM	RM	RM
Due to agents/brokers, co-insurers and insureds	6,134,827	7,633,169	4,315,133
Due to reinsurers and ceding companies	11,917,292	10,625,976	9,731,441
	18,052,119	18,259,145	14,046,574

14 OTHER PAYABLES

	31.12.2010	31.12.2009	1.1.2009
	RM	RM	RM
Accrued liabilities	2,958,867	5,652,439	6,218,413
Payroll liabilities	1,153,120	828,378	1,125,691
Accrual for IGSF levy	473,248	587,128	430,831
Amount due to broker	5,211,904	-	-
Other payables	945,073	435,581	356,503
	10,742,212	7,503,526	8,131,438

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

15 DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	31.12.2010 RM	31.12.2009 RM
Deferred tax liabilities	(1,531,183)	(2,211,155)
As previously stated	(1,607,805)	1,293,648
Tax effect on change in accounting policies (Note 36)	(603,350)	(623,376)
As restated	(2,211,155)	670,272
Credited/(charged) to Income Statement (Note 26):		
- property, plant and equipment	(524,067)	(529,806)
- investments	(152,696)	(138,618)
- insurance liabilities	20,785	(3,480,455)
- others	603,350	20,026
	(52,628)	(4,128,853)
Credited to equity:		
- investments	732,600	1,247,426
At 31 December	(1,531,183)	(2,211,155)
<u>Subject to income tax:</u>		
<u>Deferred tax assets (before offsetting)</u>		
Insurance liabilities	232,668	211,883
	232,668	211,883
Offsetting	(232,668)	(211,883)
Deferred tax assets (after offsetting)	-	-
<u>Deferred tax liabilities (before offsetting)</u>		
Property, plant and equipment	(1,673,297)	(1,149,230)
Investments	(90,554)	(670,458)
Others	-	(603,350)
	(1,763,851)	(2,423,038)
Offsetting	232,668	211,883
Deferred tax liabilities (after offsetting)	(1,531,183)	(2,211,155)

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16 SHARE CAPITAL

	<u>2010</u> RM	<u>2009</u> RM
Authorised ordinary shares of RM1.00 each At the beginning and end of financial year	100,000,000	100,000,000
Issued and fully paid ordinary shares of RM1.00 each At the beginning and end of financial year	100,000,000	100,000,000

17 RETAINED EARNINGS

Under the single-tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders. However, the Company has not utilised fully its Section 108 credits balances up to 31 December 2010 and may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is earlier, unless the Company opts to disregard the Section 108 credits under the special transitional provisions of the Finance Act 2007 and pay single-tier dividends. The Company has not opted to disregard the Section 108 credit. Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credit under Section 108(6) of the Malaysian Income Tax Act, 1967 and tax exempt income to frank the payment of net dividends out of all its retained earnings as at 31 December 2010.

18 EMPLOYEES EQUITY-SETTLED, SHARE-BASED LONG TERM INCENTIVE PLAN

The eligible employees of the Company participate in an equity-settled, share-based long term incentive plan offered by its ultimate holding company, ACE Limited. The long term incentive plan consists of a restricted share grant plan, a restricted share option plan and an employee share participation plan.

Restricted Share Grant Plan

Under ACE's long term incentive plan, 3,432 (2009: 4,660) restricted ordinary shares were awarded during the financial year ended 31 December 2010 to eligible employees of the Company. These shares vest at various dates over a 4 year period from the grant dates and any unvested shares are cancelled on termination of the employment of the eligible employees. This plan is a group scheme with expenses incurred under the scheme charged out by ACE to the Company on an annual basis. The annual expense is based on an amortised calculation that is reflective of the current financial year's expense portion of all restricted share grants issued in the current and prior financial years, and is consistent with the treatment required by FRS 2: Share-based payment. There is no liability to the Company for the unamortised portion of the restrictive stock grants issued. The amortised calculation incorporates the fair market value of ACE's common stock at grant date, in determining the expense amount. Expected future dividend payments in relation to the restrictive stock grants issued are made directly by ACE to the eligible employees.

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18 EMPLOYEES EQUITY-SETTLED, SHARE-BASED LONG TERM INCENTIVE PLAN (CONTINUED)

Restricted Share Option Plan

Under ACE's long term incentive plan, restrictive share options were granted to eligible employees of the Company. The exercisable price of these options is the fair market value at issue date. These options vest at various dates over a 3 year period from the grant date and any unvested options are cancelled on termination of employment. This plan is a group scheme with expenses incurred under the scheme charged out by ACE to the Company on an annual basis. Any option not exercised or cancelled pursuant to the terms of plan will be forfeited by the tenth anniversary from the date of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2010		2009	
	Average exercise price per share RM	Share options	Average exercise price per share RM	Share options
At 1 January		5,885		3,350
Granted	156.31	2,861	130.38	3,850
Forfeited	146.52	(203)	165.60	(1,225)
Exercised	119.51	(261)	150.59	(90)
At 31 December		8,282		5,885

Out of the 8,282 outstanding options (2009: 5,885 options), 3,046 options (2009: 1,609) were exercisable. Options granted in 2010 resulted in 2,712 shares options (2009: 3,270 shares options) being issued at exercise price of RM156.31 each (2009: RM130.38). The related weighted average share price at the time of exercise was RM119.51 (2009: RM150.59) per share.

Share options outstanding at the end of the financial year have the following expiry date and exercise prices:

	Exercise Price Per share RM	Share Options	
		2010	2009
2013	85.56	200	200
2015	138.03	130	130
2016	175.02	450	450
2017	174.22	665	665
2018	187.06	1,170	1,170
2019	119.51	2,955	3,270
2020	156.31	2,712	-
		8,282	5,885

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18 EMPLOYEES EQUITY-SETTLED, SHARE-BASED LONG TERM INCENTIVE PLAN (CONTINUED)

Restricted Share Option Plan (continued)

The weighted average fair value of options granted during the financial year determined using the Black-Scholes valuation model was RM36.27 per option (2009: RM42.63). The significant inputs into the model were share price of RM156.31 (2009: RM130.38), at the grant date, the exercise price shown above, volatility of 30.33% (2009: 45.30%), dividend yield of 2.46% (2009: 2.80%), an expected option life of 5 years and on annual risk-free interest rate of 2.31% (2009: 2.80%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

Employee Share Purchase Plan

The Company collects monies from local eligible employees and acquires ordinary shares in ACE on behalf of the employees on a bi-annual basis. The price paid by the eligible employees is set at a discount of 15% to the fair value of the ordinary shares at the date of acquisition; this discount is incurred at the group level by ACE and not reimbursed from the Company.

The total expenses of employees equity-settled share-based long term incentive plan for the financial year was RM389,140 (2009: RM523,966).

19 OPERATING REVENUE

	2010 RM	2009 RM
Gross premiums (Note 20(a))	236,408,987	217,142,172
Investment income (Note 21)	9,546,323	8,542,315
	245,955,310	225,684,487

20 NET EARNED PREMIUM

	2010 RM	2009 RM
(a) Gross Earned Premiums		
Insurance contracts (Note 11(ii))	236,408,987	217,142,172
Change in premium liabilities	(11,689,618)	(12,667,722)
	224,719,369	204,474,450
(b) Premiums ceded		
Reinsurance contracts (Note 11(ii))	(79,859,524)	(76,194,613)
Change in premium liabilities	4,279,190	-
	(75,580,334)	(76,194,613)
Net Earned Premium	149,139,035	128,279,837

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

21 INVESTMENT INCOME

	2010 RM	2009 RM
Available-for-Sales (AFS) financial assets		
Interest income from:		
Malaysian Government Securities	2,315,816	2,638,421
Malaysian Government guaranteed loans	8,508	-
Unquoted bonds of corporations	2,231,657	2,495,054
Dividend income from shares of corporations quoted in Malaysia	197,680	673,100
Accretion of discounts, net of (amortisation of premium)	17,457	(22,938)
Loans and receivables interest income	4,660,012	2,791,037
Others investment income	247,193	83,964
	<u>9,678,323</u>	<u>8,658,638</u>
Less : Investment expenses	(132,000)	(116,323)
	<u>9,546,323</u>	<u>8,542,315</u>

22 REALISED GAINS AND LOSSES

	2010 RM	2009 RM
Loss on disposal of		
Property and equipment	(827)	(53,785)
AFS financial assets		
Realised gains:		
- Malaysian Government Securities	1,328,107	-
- Unquoted bonds of corporations	779,280	-
- Shares of corporations quoted in Malaysia	1,210,346	8,467,599
Impairment loss	(118,244)	-
	<u>3,199,489</u>	<u>8,467,599</u>
Foreign exchange		
Realised gains	557,751	341,250
	<u>3,756,413</u>	<u>8,755,064</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

23 OTHER OPERATING INCOME

	2010 RM	2009 RM
Share service fees from related companies	288,000	288,000
Other sundry income	9,610	4,840
	<u>297,610</u>	<u>292,840</u>

24 NET CLAIMS

	2010 RM	2009 RM
Insurance claims and loss adjustment expenses - Gross		
(a) Gross claims paid (Note 11)	(49,312,901)	(51,458,768)
(c) Change in claim liabilities	(46,355,261)	2,837,636
Insurance claims and loss adjustment - Recoverable		
(b) Paid claims recovered (Note 11)	12,829,877	15,928,394
(d) Change in claim liabilities	24,379,372	(8,112,964)
	<u>(58,458,913)</u>	<u>(40,805,702)</u>

25 MANAGEMENT EXPENSES

	2010 RM	2009 RM
Staff salary, bonus and benefits	15,511,692	14,561,471
Defined contribution plan	1,656,524	1,313,440
Employees equity-settled share-based plan	215,421	344,382
	<u>17,383,637</u>	<u>16,219,293</u>
Executive Director:		
- Salary and bonus	762,825	705,988
- Other emoluments	337,662	358,529
- Employees equity-settled share-based plan	173,719	179,584
	<u>1,274,206</u>	<u>1,244,101</u>
Non-executive Directors:		
- Fees	188,002	133,000
Directors' remuneration	<u>1,462,208</u>	<u>1,377,101</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

25 MANAGEMENT EXPENSES (CONTINUED)

	2010 RM	2009 RM
Advertising	1,618,763	7,660,837
Management fees	1,846,107	1,922,271
EDP expenses	7,398,848	6,574,903
Postage, telephone and telefax	1,300,030	1,406,162
Depreciation of plant and equipment	1,122,313	1,250,472
Amortisation of intangible assets	791,601	332,571
Rental of offices	1,634,952	1,580,554
Insurance Guarantee Scheme Fund levy	457,374	398,025
Repairs and maintenance	356,755	623,359
Auditors' remuneration		
- Statutory audit	146,000	136,000
- Tax consultancy	20,625	11,515
Other expenses	5,920,868	10,382,959
Allowance for impairment on insurance receivables	377,758	12,570
Bad debts written off	313,270	16,858
	23,305,264	32,309,056
	42,151,109	49,905,450

Total staff costs of the Company (including Executive Director) are RM18,657,843 (2009: RM17,463,394).

Included in the staff cost is RM168,338 (2009: RM147,592) accrued for accumulated annual leave.

The remuneration, including benefits-in-kind, attributable to the Chief Executive Director of the Company during the financial year amounted to RM1,561,117 (2009: RM1,504,393).

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

The compensation of the key management personnel including Executive Director are as follows:-

	2010 RM	2009 RM
Salary, bonus and benefits	2,941,256	2,801,495
Benefits-in-kind and other remunerations	582,588	594,742
	3,523,844	3,396,236

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

26 TAXATION

	2010 RM	2009 RM
Current Tax		
Current year	11,278,514	6,284,628
Under/(over) accrued in prior financial year	230,677	(341,575)
	11,509,191	5,943,053
Deferred Tax		
Origination and reversal of temporary differences (Note 15)	52,628	4,128,853
	11,561,819	10,071,906

The explanation of the relationship between tax expense and profit before taxation is as follows:

Numerical reconciliation between tax expense and the product of accounting profit multiplied by the Malaysian tax rate:

	2010 RM	2009 RM
Profit before taxation	44,944,758	39,358,243
Malaysia tax rate	25%	25%
Tax calculated at Malaysia tax rate	11,236,190	9,839,561
Tax effects of:		
- expenses not deductible for tax purposes	404,040	863,794
- income not subject to tax	(19,462)	(44,094)
- difference tax rate for offshore insurance fund	(289,626)	(245,780)
Under/(over) accrual in prior financial year	230,677	(341,575)
Tax Expenses	11,561,819	10,071,906

27 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year of RM33,382,939 (2009: RM29,286,337) and the weighted average number of ordinary shares in issue during the financial year of 100,000,000 (2009: 100,000,000).

28 DIVIDEND

The Directors do not recommend any final dividend for the financial year ended 31 December 2010 and 2009.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

30 OPERATING LEASE COMMITMENTS

	2010 RM	2009 RM
Not later than 1 year	2,040,835	1,025,731
Later than 1 year but not later than 5 years	3,394,267	345,620
	5,435,102	1,371,351

31 RELATED PARTY BALANCES AND TRANSACTIONS

The related parties of, and their relationship with the Company, are as follows:

<u>Company</u>	<u>Country of incorporation</u>	<u>Relationship</u>
ACE Limited	Switzerland	Ultimate holding company
ACE INA International Holdings Ltd	United States	Immediate holding company
Advance Synergy Berhad	Malaysia	Holding company of substantial shareholder of the Company
Advance Synergy Capital Sdn Bhd	Malaysia	Substantial shareholder of the Company

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its ultimate holding company and related companies, being subsidiaries of ACE Limited ("ACE Group") and other related parties, namely Advance Synergy Berhad and its subsidiaries and associated companies ("ASB Group").

The related party balances as at the balance sheet date and significant related party transactions arising from normal business transactions during the financial year are set out below.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

31 RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Significant related party outstanding balances:

ACE Group

	2010 RM	2009 RM
Reinsurance assets on claim liabilities	39,239,542	27,240,418
Insurance receivables	2,278,727	1,216,151
Other receivables	964,129	179,394
Insurance payables	(4,634,260)	(6,869,086)
Other payables	(583,650)	(40,926)

Significant related party transactions:

ACE Group

	2010 RM	2009 RM
Premium income	16,243,639	15,035,277
Premium ceded	(63,805,145)	(61,496,812)
Commission income	13,543,764	12,103,900
Commission expense	(1,159,794)	(601,188)
Claims recoveries	22,212,159	6,984,850
Claims incurred	(9,906,393)	(655,853)
Accounting and administration services	288,000	288,000
Underwriting survey services	(11,379)	(19,629)
EDP system charge	(5,884,688)	(5,690,719)
Accounting services	(93,883)	(81,143)
Management fee	(1,363,316)	(1,268,767)

ASB Group

Premium income	262,097	251,975
Commission expense	(48,442)	(41,862)
Claims incurred	(120,277)	(57,690)

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)**32 RISK MANAGEMENT FRAMEWROK**

The Company's Risk Management Framework ("RMF") provides assurance that the Company's risks (including material outsourcing risks) are soundly and prudently managed having regard to the Company's size, business mix and branches operation. The RMF provides a key tool for the Company's senior management, business managers, employees and external stakeholders to understand the Company's approach to risk management. Identification and management of risk occurs at all levels within the organisation as evidenced by both the bottom up and top down procedures that are in place.

Risk Appetite

The Company's risk appetite is formulated by the Board and is reviewed annually and is influenced by the following factors:

- (a) Required return on equity;
- (b) Requirement from shareholders for low volatility in earnings;
- (c) Reinsurance arrangements and retentions; and
- (d) The group's philosophy to risk management.

The Company in general has a risk adverse culture with a conservative risk appetite

Roles and responsibilities for risk management at the Company**(a) Board**

The Board is responsible for monitoring compliance with regulatory requirements and ethical standards and collectively possesses appropriate skill and experience to understand the Company's risks.

Risk management and control systems are supported by a strong, fully informed Board, the use of board committees, and independent experts.

In discharging responsibility for overall risk management and control, the Board delegates a number of key functions to the Audit Committee, Board Risk Committee and the Business Risk Management Committee which in turn assists and report to the Board.

The Board Risk Committee under the chairmanship of an independent director has overall risk management responsibility of the Company. It is responsible for charting direction, strategy and providing financial objectives for the Company.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010(CONTINUED)

32 **RISK MANAGEMENT FRAMEWROK (CONTINUED)**

(b) Audit Committee (“AC”)

The role of the AC is to provide an objective independent non-executive review and oversight of the Company’s financial reporting system of compliance with laws and regulations, internal compliance guidelines, policies, procedures and controls, and to provide advice and assistance including submitting recommendations to the Board in order to:

- Fulfill its audit, accounting and reporting obligations (including BNM reporting requirements);
- Monitor internal and external auditor’s performance (including the independence of the Approved Auditor);
- Ensure compliance with legal and regulatory requirements in addition to the Company’s policies, procedures, and codes of business conduct;
- Monitor compliance with applicable accounting standards and other requirements relating to the preparation and representation of financial results; and
- Fulfill its responsibilities relating to the financial statements, internal accounting and financial control systems.

The AC meets at least 6 times a year and reports to the Board on financial controls audit and monitoring related issues.

The Audit Committee Charter sets out the roles and responsibilities of the AC. The Committee has at least three (3) members, all of whom are non executive directors, with a majority being independent. Both the Legal & Compliance Officer and internal audit function are present at the AC meetings.

(c) The Business Risk Management Committee (“BRMC”)

The BRMC is charged with the responsibility of monitoring, assessing and reporting on risk related issues at the Company as detailed in the Business Risk Management Committee (BRMC) Charter approved by the Board Risk Committee.

Its objective is to establish, maintain and monitor compliance within a sound risk management framework that integrates risk management into all activities of the business. Its role is to provide advice and assistance including submitting recommendations to the Board Risk Committee on risk management. Part of its role includes assigning responsibility for the mitigation of business risk identified.

The BRMC utilises a risk management web based tool to record and monitor risks.

The BRMC consists of all the Heads of Department representing the following business and operational units:

Finance	Legal & Compliance
Claims	Management Information System
Property & Casualty	Accident & Health
Human Resources & Administration	Telemarketing
Alternative Distribution	

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010(CONTINUED)32 **RISK MANAGEMENT FRAMEWROK (CONTINUED)****(d) The Chief Executive Officer (“CEO”)**

The CEO has the overall management responsibility for development and implementation of strategy as well submitting recommendations on significant corporate initiatives, formulation of business plans, senior management selection, and financial performance by developing budgets, maintenance of an effective risk management framework and corporate responsibility through day to day operation of the Company.

Monitoring & Reporting Risk

The Company's monitoring and reporting of risk is accomplished through ongoing monitoring activities and evaluations; including peer reviews and clearly defined roles for internal and external auditors.

Capital Management

The Company's objectives when managing capital are:

- i) to comply with the capital adequacy level that commensurate with its risk profile in accordance to the Risk-based Capital Framework prescribed by BNM,
- ii) to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other shareholder; and
- iii) to provide adequate return to shareholders by pricing the insurance and investment contracts commensurately with the level of risk.

The Framework requires each insurer to maintain a minimum capital adequacy level of 130% and an internal capital adequacy level as agreed by BNM for each insurer depending on the respective insurers risk profile. The Company complies with this requirement at all times and maintains suitable risk management systems to manage and monitor the risks associated with its business activities and holds capital that commensurate with the overall risk profile.

The capital adequacy position is closely monitored by the management, the AC as well as the Board and is formally reported to the BNM on quarterly and annual basis. Any declaration of dividend would be signed off by the Board and informed to BNM.

All members of the senior management team are aware of the impact that a shift in business direction, change in pricing or underwriting philosophy and other company's policy has on the capital position of the Company.

The Company's capital structure is set out in Note 35 to the financial statements.

33 **INSURANCE RISKS**

Underwriting and insurance risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the adjudication of claims and the management of contractual and non-contractual cover.

The Company has instituted documented standards of risk selection, underwriting authorities, risk management engineering, pricing guidelines and risk accumulation limits. Reinsurance is placed to minimise certain insurance risks within approved limits and security. Claims approval and claims settlement authorities are clearly defined for prudent control on financial exposure. Regular underwriting and claims audits are performed in addition to internal audits to ensure strict compliance with the Company's guidelines and standards.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

33 INSURANCE RISKS (continued)

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

	2010			2009		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
Motor	36,114,101	(2,849,809)	33,264,292	26,063,400	(1,906,943)	24,156,457
Fire	36,810,511	(17,375,188)	19,435,323	31,547,331	(18,927,061)	12,620,270
Marine, Aviation & Transit	18,292,569	(4,985,449)	13,307,120	14,581,343	(3,968,679)	10,612,664
Miscellaneous	145,191,806	(54,649,078)	90,542,728	144,950,098	(51,391,930)	93,558,168
	<u>236,408,987</u>	<u>(79,859,524)</u>	<u>156,549,463</u>	<u>217,142,172</u>	<u>(76,194,613)</u>	<u>140,947,559</u>

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

	2010			2009		
	Gross RM	Reinsurance RM	Net RM	Gross RM	Reinsurance RM	Net RM
Motor	44,199,768	(3,803,338)	40,396,430	31,405,362	(2,940,228)	28,465,134
Fire	30,868,439	(13,157,860)	17,710,579	16,548,919	(1,304,390)	15,244,529
Marine, Aviation & Transit	21,799,375	(4,820,586)	16,978,789	14,671,911	(2,990,855)	11,681,056
Miscellaneous	113,154,365	(48,628,609)	64,525,756	89,350,876	(34,516,358)	54,834,518
	<u>210,021,947</u>	<u>(70,410,393)</u>	<u>139,611,554</u>	<u>151,977,068</u>	<u>(41,751,831)</u>	<u>110,225,237</u>

(a) Key Assumptions

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

33 INSURANCE RISKS (continued)

(b) Sensitivities

The Company conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Company. The table below shows how a change in each assumption will affect the outstanding claims liabilities both gross and net of reinsurance and shows an analysis of the sensitivity of the profit/(loss) and equity to changes in these assumptions. As no explicit inflation rate is used in the valuation, no sensitivity analysis is able to be carried out for a change in the inflation rate.

Actuarial Assumptions

The following assumptions have been made in determining the gross outstanding claim liabilities:

31 December 2010

Discounted average weighted term to settlement	1.68
Ultimate claim number - current year	9,072
Average claim size - current year	10,243
Unallocated claim expense rate	4.4%
Discount rate	0.0%

A description of the processes used to determine these assumptions is provided below:

Discounted average weighted term to settlement

The discounted average weighted term to settlement is calculated separately by class of business based on historical payment patterns.

Ultimate claim number - current year

The ultimate claim number for the current accident year is estimated separately by class of business by projecting the number of claims reported to date based on historical reporting patterns.

Average claim size - current year

The average claim size for the current accident year is estimated separately by class of business by projecting the ultimate claims cost based on historical claim development patterns and dividing by the estimated ultimate claim number.

Inflation rate

The inflation rate is implicit in the valuation models used so no explicit inflation rate is used in the valuation. Movement in average claim size provides a de facto estimate of the inflation rate implied in the valuation.

Unallocated claim expense rate (or Indirect claim expense rate)

The unallocated claim expense rate is calculated separately by class of business based on historical unallocated claim expenses as a percentage of historical payments.

Discount Rate

Due to materiality, no discounting has been applied in the valuation of the insurance liabilities.

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33 INSURANCE RISKS (continued)

(b) Sensitivities (continued)

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net claim liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions	Impact on gross liabilities		Impact on net liabilities		Impact on profit before tax		Impact on equity	
		RM	RM	RM	RM	RM	RM	RM	RM
2010									
Ultimate claim number - current year	+10%	10,684,894	6,835,398	6,835,398	6,835,398	6,835,398	(5,126,548)		
Ultimate claim number - current year	-10%	(10,684,894)	(6,835,398)	(6,835,398)	(6,835,398)	(6,835,398)	5,126,548		
Average claim size - current year	+10%	10,684,894	6,835,398	6,835,398	6,835,398	6,835,398	(5,126,548)		
Average claim size - current year	-10%	(10,684,894)	(6,835,398)	(6,835,398)	(6,835,398)	(6,835,398)	5,126,548		
Unallocated claim expense rate	+1%	1,347,366	1,338,228	1,338,228	1,338,228	1,338,228	(1,003,671)		
Unallocated claim expense rate	-1%	(1,347,366)	(1,338,228)	(1,338,228)	(1,338,228)	(1,338,228)	1,003,671		
Discount rate	+1%	(2,328,588)	(1,011,278)	(1,011,278)	(1,011,278)	(1,011,278)	758,459		
Discount rate	-1%	2,391,784	1,035,563	1,035,563	1,035,563	1,035,563	(776,672)		

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

33 INSURANCE RISKS (continued)

(c) Claims Development Table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each date of statement of financial position, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

33 **INSURANCE RISKS (continued)**

(c) Claims Development Table (continued)

Gross insurance contracts claims liabilities for 2010:

Accident year	Prior Years RM	2003 RM	2004 RM	2005 RM	2006 RM	2007 RM	2008 RM	2009 RM	2010 RM	Total RM
At end of accident year		31,763,776	39,596,871	39,462,900	52,219,119	62,161,495	55,167,003	56,742,787	92,930,814	
One year later		27,875,636	33,085,932	31,727,209	46,961,894	69,697,218	52,777,587	56,240,052		
Two years later		21,425,180	33,372,865	29,477,133	46,477,803	65,670,882	52,146,275			
Three years later		22,421,613	31,017,645	30,167,287	44,367,183	66,832,036				
Four years later		21,400,969	30,958,434	31,464,057	43,997,873					
Five years later		21,176,968	30,929,248	31,279,087						
Six years later		21,136,370	31,282,949							
Seven years later		21,128,248								
Current estimate of cumulative claims incurred		21,128,248	31,282,949	31,279,087	43,997,873	66,832,036	52,146,275	56,240,052	92,930,814	
At end of accident year		8,168,562	6,414,662	9,159,257	18,741,433	17,846,057	18,786,047	20,097,767	23,269,030	
One year later		16,151,297	18,779,466	19,254,359	33,178,971	41,695,235	36,755,772	36,299,230		
Two years later		18,993,536	23,494,834	21,151,926	38,937,199	47,799,220	44,854,597			
Three years later		20,278,881	28,822,538	24,176,018	41,083,172	50,594,998				
Four years later		20,391,281	29,481,192	26,083,475	41,971,441					
Five years later		21,042,465	29,890,665	26,917,063						
Six years later		21,184,893	30,141,100							
Seven years later		21,106,247								
Cumulative payments to-date		21,106,247	30,141,100	26,917,063	41,971,441	50,594,998	44,854,597	36,299,230	23,269,030	
Outstanding Claims	1,657,186	22,001	1,141,849	4,362,024	2,026,432	16,237,039	7,291,677	19,940,821	69,661,784	122,340,813
Claims Handling Expenses										5,381,721
Total Gross Central Estimate										127,722,533
Risk Margin										12,941,108
Net insurance contract liabilities per Balance Sheet (Note 11(i))										140,663,641
% surplus of initial gross reserve										10.1%

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AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010(CONTINUED)

33 INSURANCE RISKS (continued)

(c) Claims Development Table (continued)

Net insurance contracts claims liabilities for 2010:

	Prior Years	2003	2004	2005	2006	2007	2008	2009	2010	Total
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
Accident year										
At end of accident year		19,708,735	19,526,491	21,556,929	35,513,132	38,465,321	37,456,863	42,134,908	57,553,636	
One year later		18,259,593	15,126,314	17,967,880	32,534,131	37,639,368	37,376,815	41,459,858		
Two years later		14,267,094	14,665,437	17,068,895	33,115,102	36,272,489	36,316,335			
Three years later		14,882,172	14,760,955	17,499,824	32,005,435	36,368,973				
Four years later		14,023,679	14,989,322	18,499,141	31,836,578					
Five years later		14,169,305	14,980,471	18,294,880						
Six years later		14,224,976	15,208,800							
Seven years later		14,196,003								
Current estimate of cumulative claims incurred		14,196,003	15,208,800	18,294,880	31,836,578	36,368,973	36,316,335	41,459,858	57,553,636	
At end of accident year		5,053,172	4,891,396	6,610,717	14,705,690	14,293,938	14,522,313	17,079,328	20,283,883	
One year later		10,586,256	9,774,360	14,037,061	25,538,919	28,791,751	26,959,651	28,201,100		
Two years later		12,739,801	12,120,101	14,872,918	28,424,861	30,955,767	30,827,064			
Three years later		13,771,834	13,878,642	16,230,618	30,005,573	32,666,677				
Four years later		13,843,473	14,322,164	16,920,385	30,500,419					
Five years later		14,208,062	14,622,805	17,425,846						
Six years later		14,239,836	14,808,685							
Seven years later		14,179,283								
Cumulative payments to-date		14,179,283	14,808,685	17,425,846	30,500,419	32,666,677	30,827,064	28,201,100	20,283,883	
Outstanding Claims	413,757	16,721	400,116	869,034	1,336,159	3,702,297	5,489,271	13,258,758	37,269,753	
Claims Handling Expenses										
Total Net Central Estimate										62,755,865
Risk Margin										5,381,721
Net insurance contract liabilities per Balance Sheet (Note 11(i))										68,137,585
% surplus of initial gross reserve										6,394,854
										74,532,439
										9.4%

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS

The Board recognises the Company's exposure to business, economic and financial risks and the need to develop and implement measures to mitigate the risks identified as having potentially adverse impact on the Company's operations and impairment of its financial strength. The Board has assumed the primary responsibility of developing and implementing the Company's risk management program by evaluating, managing and monitoring the principal risks.

(a) Credit risk

Credit risk is the risk of financial loss resulting from a failure of a debtor to honour its obligations to the Company.

Credit risk management in respect of receivables is practised Company wide by implementing effective credit documentation and collection procedures. The Company establishes defined tolerance on credit periods and rigorously monitors the credit portfolio to minimise problem accounts.

The Company maintains a diversified portfolio of investments in government guaranteed and minimum A-rated financial instruments issued by companies with strong credit ratings.

The table below summarise the maximum credit risk exposure for the financial assets of the Company at the balance sheet date.

	2010 RM	2009 RM
Investments	359,377,000	300,445,765
Available for sales - unquoted debt securities	236,695,000	110,300,600
Loans and receivables	122,682,000	190,145,165
Reinsurance assets - claims liabilities	66,131,203	41,751,831
Insurance receivables	17,076,354	12,562,161
Other receivables (exclude prepayment)	13,251,954	7,594,749
Cash and bank balances	2,119,607	7,165,948
	<u>457,956,118</u>	<u>369,520,454</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

The table below summarise information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past due nor impaired Rated: satisfactory RM	Not rated RM	Past due but not impaired RM	Total RM
31 December 2010				
Investments	359,377,000	-	-	359,377,000
Available for sales - unquoted debt securities	236,695,000	-	-	236,695,000
Loans and receivables	122,682,000	-	-	122,682,000
Reinsurance assets - claims liabilities	28,963,714	37,167,489	-	66,131,203
Insurance receivables	-	-	17,076,354	17,076,354
Other receivables (exclude prepayment)	-	13,251,954	-	13,251,954
Cash and bank balances	2,112,224	7,383	-	2,119,607
	390,452,938	50,426,826	17,076,354	457,956,118

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

	31 December 2009		
	Neither past due nor impaired Rated: satisfactory RM	Not rated RM	Past due but not impaired RM
			Total RM
Investments	300,445,765	-	300,445,765
Available-for-sales - unquoted debt securities	110,300,600	-	110,300,600
Loans and receivables	190,145,165	-	190,145,165
Reinsurance assets - claims liabilities	17,685,308	24,066,523	41,751,831
Insurance receivables	-	7,594,749	12,562,161
Other receivables (exclude prepayment)	7,158,500	7,448	7,594,749
Cash and bank balances	-	-	7,165,948
	325,289,573	31,668,720	369,520,454

As at 31 December 2010, insurance receivable of RM17,076,354 (2009: RM12,562,161) were past due but not impaired.

The age analysis of insurance receivables that are past-due but not impaired are as follows:

31 December 2010	< 30 days RM	31 - 60 days RM	61 - 90 days RM	91 - 180 days RM	> 180 days RM	Total RM
Insurance receivables	6,506,988	2,654,962	521,030	5,372,581	2,020,793	17,076,354
31 December 2009						
Insurance receivables	5,696,400	1,066,670	955,892	2,552,702	2,290,497	12,562,161

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)
34 FINANCIAL RISKS (CONTINUED)
(a) Credit risk (continued)

As at 31 December 2010, insurance receivables of RM1,391,200 (2009: RM1,013,442) were impaired based on individual and collective assessment. Insurance receivable is considered as individually impaired if the counterparty is in the process of liquidation, legal actions has been taken to recover the outstanding balance dispute, default or delinquency in payment. Insurance receivables with insignificant balances are grouped together and assessed collectively based on past payment trends.

The Company records impairment allowance for insurance receivables in a separate allowance account. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	2010	2009
	RM	RM
At 1 January	1,013,442	1,000,872
Charges for the year	691,028	29,428
Amount written off	(313,270)	(16,858)
At 31 December	<u>1,391,200</u>	<u>1,013,442</u>

No collateral is held as security for any past due or impaired financial assets.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Standard & Poor's Financial Services LLC ("S&P"), Rating Agency of Malaysia's ("RAM"), Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC") credit ratings of counterparties. AAA is the highest possible ratings.

31 December 2010	Government		AAA		AA		A		Non Rated		Total	
	Guaranteed		RM		RM		RM		RM		RM	
Investments	100,099,400	151,612,500	93,665,100	14,000,000	-	-	-	-	-	-	359,377,000	
Available-for-sales - unquoted debt securities	100,099,400	51,378,100	71,217,500	14,000,000	-	-	-	-	-	-	236,695,000	
Loans and receivables	-	100,234,400	22,447,600	-	-	-	-	-	-	-	122,682,000	
Reinsurance assets - claims liabilities	-	-	27,871,739	1,091,975	37,167,489	66,131,203	-	-	-	-	131,193,606	
Insurance receivables	-	-	16,755	1,266,734	15,792,865	17,076,354	-	-	-	-	34,166,004	
Other receivables (exclude prepayment)	-	-	-	-	13,251,954	13,251,954	-	-	-	-	26,503,908	
Cash and bank balances	-	2,100,276	11,550	398	7,383	2,119,607	-	-	-	-	4,238,864	
	100,099,400	153,712,776	121,565,144	16,359,107	66,219,691	457,956,118					1,315,306,143	

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

	31 December 2009						Total
	Government Guaranteed	AAA	AA	A	Non Rated		
	RM	RM	RM	RM	RM	RM	RM
Investments	53,900,900	153,014,365	84,530,500	9,000,000	-	300,445,765	
Available-for-sales - unquoted debt securities	53,900,900	40,869,200	15,530,500	-	-	110,300,600	
Loans and receivables	-	112,145,165	69,000,000	9,000,000	-	190,145,165	
Reinsurance assets - claims liabilities	-	-	22,548	17,662,760	24,066,523	41,751,831	
Insurance receivables	-	-	-	262,563	12,299,598	12,562,161	
Other receivables (exclude prepayment)	-	-	-	-	7,594,749	7,594,749	
Cash and bank balances	-	7,153,936	3,102.41	1,460.95	7,448	7,165,948	
	53,900,900	160,168,301	84,556,150	26,926,784	43,968,318	369,520,454	

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk

Liquidity risk arises when the Company does not have the availability of funds to honour all cash outflow commitments as they fall due.

The Company's principal liquidity objective is to ensure that funds are available to meet its insurance and reinsurance obligations. Management utilises monthly cash flow reporting and forecasting to identify known, expected and potential cash outflows to determine an appropriate operating liquidity to cover expected and potential payments.

Maturity profiles

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

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from recognised insurance liabilities.

Unearned premiums and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

31 December 2010	Carrying value RM	Up to 1 year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Total RM
FINANCIAL ASSETS						
Investments	359,377,000	174,649,388	110,870,250	94,203,000	10,683,400	390,406,038
Available-for-sales - unquoted debt securities	236,695,000	51,752,110	110,870,250	94,203,000	10,683,400	267,508,760
Loans and receivables	122,682,000	122,897,278	-	-	-	122,897,278
Reinsurance assets - claims liabilities	66,131,203	26,752,568	26,736,764	9,061,769	3,580,102	66,131,203
Insurance receivables	17,076,354	17,076,354	-	-	-	17,076,354
Other receivables (exclude prepayment)	13,251,954	13,251,954	-	-	-	13,251,954
Cash and bank balances	2,119,607	2,119,607	-	-	-	2,119,607
Total financial assets	457,956,118	233,849,872	137,607,014	103,264,769	14,263,502	488,985,157
FINANCIAL LIABILITIES						
Insurance contract liabilities	140,663,642	64,848,808	53,150,204	16,264,466	6,400,164	140,663,642
- claim liabilities	3,614,422	3,614,422	-	-	-	3,614,422
Investment contract liabilities	18,052,119	18,052,119	-	-	-	18,052,119
Insurance payables	10,742,212	10,742,212	-	-	-	10,742,212
Total financial liabilities	173,072,395	97,257,561	53,150,204	16,264,466	6,400,164	173,072,395

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Maturity profiles (continued)

31 December 2009	Carrying value RM	Up to 1 year RM	1 - 3 years RM	3 - 5 years RM	5 - 15 years RM	Total RM
FINANCIAL ASSETS						
Investments	300,445,765	205,479,055	83,520,510	17,986,450	5,860,100	312,846,115
Available-for-sales - unquoted debt securities	110,300,600	14,446,910	83,520,510	17,986,450	5,860,100	121,813,970
Loans and receivables	190,145,165	191,032,145	-	-	-	191,032,145
Reinsurance assets - claims liabilities	41,751,831	17,457,828	14,992,236	6,679,926	2,621,842	41,751,831
Insurance receivables	12,562,161	12,562,161	-	-	-	12,562,161
Other receivables	7,594,749	7,594,749	-	-	-	7,594,749
(exclude prepayment)	7,165,948	7,165,948	-	-	-	7,165,948
Cash and bank balances						
Total financial assets	369,520,454	250,259,741	98,512,746	24,666,376	8,481,942	381,920,804
FINANCIAL LIABILITIES						
Insurance contract liabilities						
- claim liabilities	94,308,381	46,229,823	31,825,231	11,592,499	4,660,828	94,308,381
Investment contract liabilities	4,226,364	4,226,364	-	-	-	4,226,364
Insurance payables	18,259,145	18,259,145	-	-	-	18,259,145
Other payables	7,503,526	7,503,526	-	-	-	7,503,526
Total financial liabilities	124,297,416	76,218,858	31,825,231	11,592,499	4,660,828	124,297,416

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AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

- (i) Foreign currency risk
- (ii) Price risk
- (iii) Interest rate risk

(i) Foreign currency risk

Foreign exchange risk is the exposure of a company's financial strength to the potential impact of movements in foreign exchange rates. The risk is that adverse fluctuations in exchange rates may result in a reduction in measures of financial strength.

The Company transacts in minimal selected currencies and monitors corresponding assets and liabilities created at transaction level to ensure optimal currency positions.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Its exposure to foreign exchange risk is minimum and mainly arises principally with respect to United State Dollar ("USD"), Australian Dollar ("AUD"), New Zealand Dollar ("NZD") and Singapore Dollar ("SGD").

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Insurance Act, 1996, and hence, primarily denominated in the local currency as its insurance contract liabilities.

The Company does not engage in derivative transactions for speculative purposes. Where deemed necessary in line with the Company's risk management policy, the Company enters into derivative transactions solely for hedging purposes.

As the Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance inward and outward transactions for which the balances are expected to be settled and realised in less than a year, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

(ii) Price risk

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

The Company's equity price risk exposure relates to financial assets and whose values will fluctuate as a result of changes in market prices.

The Company is exposed to equity price risk arising from investment held by the Company and classified in the statement of financial position as available-for-sale financial assets that mainly consists of quoted equities in Bursa Malaysia amounting to RM2,985,245 (2009: RM4,841,142).

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

(ii) Price risk (continued)

The analysis below is performed for reasonably possible movement in equity price (with all other variables remain constant) showing the impacts of statement of comprehensive income and equity.

	Variable Changes	31 December 2010		31 December 2009	
		Impact on Income Statement RM	Impact on Equity after tax adjustment RM	Impact on Income Statement RM	Impact on Equity after tax adjustment RM
Bursa Malaysia	+ 15%	-	335,840	-	544,628
Bursa Malaysia	- 15%	-	(335,840)	-	(544,628)

(iii) Interest rate

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

The Company is exposed to interest rate risk arising from investment held by the Company and classified in the statement of financial position as available-for-sale financial assets that mainly consist of investment in fixed income securities managed by outsource fund managers and short term deposit placements whereby the Company is managing the risk exposure on an ongoing basis. The fund managers appointed by the Company are required to invest only in high quality liquid fixed interest securities and cash to minimise the exposure to interest rate.

The Company has no significant concentration of interest rate risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects re-valuing fixed rate/yield available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate/profit yield risk but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Variable Changes	31 December 2010		31 December 2009	
		Impact on Income Statement RM	Impact on Equity after tax adjustment RM	Impact on Income Statement RM	Impact on Equity after tax adjustment RM
Interest Rate	+ 50 basis points	-	(2,527,272)	-	(277,282)
Interest Rate	- 50 basis points	-	2,547,522	-	277,282

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

34 FINANCIAL RISKS (CONTINUED)

(d) Operational risks

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

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

Business risks, such as, changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

35 CAPITAL STRUCTURE

The capital structure of the Company as at 31 December 2010, as prescribed under the RBC Framework is provided below:

	Note	2010 RM	2009 RM
<u>Eligible Tier 1 Capital</u>			
Share capital (paid-up)	16	100,000,000	100,000,000
Retained earning		128,753,083	95,370,144
		<u>228,753,083</u>	<u>195,370,144</u>
<u>Tier 2 Capital</u>			
Available-for-sale reserve		414,502	2,612,304
Other reserve		1,009,858	791,387
Amount deducted from capital		(2,697,673)	(969,755)
Total Capital Available		<u><u>227,479,770</u></u>	<u><u>197,804,080</u></u>

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

36 CHANGES IN ACCOUNTING POLICIES

During the financial year, the Company's changed its accounting policy relating to the assessment of impairment loss on insurance receivables upon adoption of FRS 4 "Insurance Contracts". Prior to 1 January 2010, an allowance was made for any premiums, including agents' and reinsurers' balances, which remained outstanding for more than six months from the date on which they became receivable, except for outstanding motor premiums for which an allowance was made for amounts outstanding for more than 30 days.

Upon the adoption of FRS 4, if there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. An objective evidence of impairment is deemed to exist where the insurance receivables are past due for more than 90 days or 3 months.

FRS 4 prohibits offsetting of income and expenses from reinsurance contracts against the income or expenses from the related insurance contracts and offsetting of reinsurance assets against the related insurance liabilities. Following the adoption of FRS 4, the income and expenses from reinsurance contracts and reinsurance assets are required to be presented on a gross basis.

FRS 4 also introduced new disclosures requirements but does not require certain comparative disclosures when the standard is first applied.

The impact on adoption of FRS 4 on the Company's balance sheet and income statement is as follows:

	Balance sheet as at 1 January 2009			
	As previously stated	Regrossing of amounts	Change in accounting policy	As restated
	RM	RM	RM	RM
ASSETS				
Investments	92,930,211	(92,930,211)	-	-
Loans and receivables	-	92,930,211	-	92,930,211
Reinsurance assets	-	49,864,795	-	49,864,795
Insurance receivables	-	9,700,111	2,493,503	12,193,614
Other receivables	-	6,010,416	-	6,010,416
Receivables	15,710,257	(15,710,257)	-	-
Deferred tax assets	1,293,648	-	(623,376)	670,272
LIABILITIES				
Claims liabilities	47,281,222	(47,281,222)	-	-
Premium liabilities	45,000,965	(45,000,965)	-	-
Insurance contract liabilities	-	142,146,982	-	142,146,982
Investment contract liabilities	-	2,717,081	-	2,717,081
Payables	24,895,093	(24,895,093)	-	-
Insurance payables	-	14,046,574	-	14,046,574
Other payables	-	8,131,438	-	8,131,438
EQUITY				
Retained earnings	64,213,680	-	1,870,127	66,083,807

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

36 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

	Balance sheet as at 1 January 2010			
	As previously	Regressing	Change in	As
	stated	of amounts	accounting	restated
	RM	RM	RM	RM
ASSETS				
Investments	190,145,165	(190,145,165)	-	-
Loans and receivables	-	190,145,165	-	190,145,165
Reinsurance assets	-	41,751,831	-	41,751,831
Insurance receivables	-	10,148,763	2,413,398	12,562,161
Receivables	17,830,102	(17,830,102)	-	-
Deferred tax assets	-	7,681,339	-	7,681,339
LIABILITIES				
Claims liabilities	52,556,550	(52,556,550)		-
Premium liabilities	57,668,687	(57,668,687)		-
Insurance contract liabilities	-	151,977,068		151,977,068
Investment contract liabilities	-	4,226,364		4,226,364
Payables	-	18,259,145		18,259,145
Insurance payables	29,989,035	(29,989,035)		-
Other payables	-	7,503,526		7,503,526
Deferred tax liabilities	1,607,805	-	603,350	2,211,155
EQUITY				
Retained earnings	93,560,096	-	1,810,048	95,370,144

Increase in balances as at 31 December 2010	
	FRS 4
	RM
ASSETS	
Reinsurance assets	70,410,393
Trade receivables	1,460,322
LIABILITIES	
Insurance contract liabilities	70,410,393
Deferred tax liabilities	365,080
EQUITY	
Retained earnings	1,095,242

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 (continued)

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010 (CONTINUED)

36 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Income statement for the financial year ended 31 December 2009				
	As previously stated	Regrossing of amounts	Change in accounting policy	As restated
	1 January 2009	of amounts	1 January 2009	1 January 2009
	RM	RM	RM	RM
Management expenses	(49,825,345)	-	(80,105)	(49,905,450)
Taxation	(10,091,932)	-	20,026	(10,071,906)
Net profit	29,346,416	-	(60,079)	29,286,337

Increase/ (decrease) for the financial year ended 31 December 2010	
	FRS 4
	RM
Management expenses	953,076
Taxation	(238,270)
Net profit	(714,806)

In addition, the Company has also adopted the following 2 accounting standards that introduced new presentation and disclosures requirements:

- FRS 101 (revised) "Presentation of Financial Statements" prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the consolidated statement of changes in equity, all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- FRS 7 "Financial instruments: Disclosures" introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments. FRS 7 does not require comparative disclosures when the standard is first applied.

AUDITED FINANCIAL STATEMENTS OF ASIB FOR FYE 31 DECEMBER 2010 *(continued)*

Company No.

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ACE SYNERGY INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

We, Lim Poh Ho and Rajbir Singh Nanra, two of the Directors of ACE Synergy Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 7 to 69 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2010 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Financial Reporting Standards, being the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965 and Insurance Act, 1996.

Signed on behalf of the Board of Directors in accordance with their resolution dated 29 March 2011.



LIM POH HO
DIRECTOR



RAJBIR SINGH NANRA
DIRECTOR

Kuala Lumpur

**STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

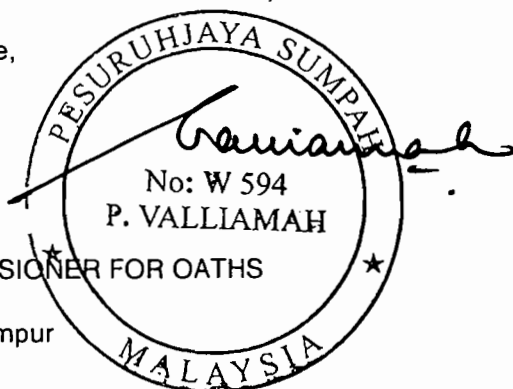
I, Lim Joo Leong, the officer primarily responsible for the financial management of ACE Synergy Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 7 to 69 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.



LIM JOO LEONG

Subscribed and solemnly)
declared at Kuala Lumpur)
on 29 March 2011)

Before me,



COMMISSIONER FOR OATHS

Kuala Lumpur

Lot 112, Tingkat Satu,
Misma MPL, Jalan Raja Chulan
50200 Kuala Lumpur.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ACE SYNERGY INSURANCE BERHAD

(Incorporated in Malaysia)
(Company No. 364935 P)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of ACE Synergy Insurance Berhad, which comprise the statement of financial position as at 31 December 2010, the statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 69.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 and Insurance Act, 1996, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

*PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ACE SYNERGY INSURANCE BERHAD (CONTINUED)

(Incorporated in Malaysia)

(Company No. 364935 P)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 and Insurance Act, 1996 so as to give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', followed by a horizontal line.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Sridharan Nair', written in a cursive style.

SRIDHARAN NAIR
(No. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur
29 March 2011

SALIENT TERMS OF THE ARSA

1. Salient Terms of the ARSA

1.1 Section 1.03 of the ARSA

- (a) By a Shareholders' Agreement dated 29 March 1996 between AIIH and ASB, AIIH and ASB agreed to provide for certain arrangements relating to the Company's operations and affairs and to determine certain rights and obligations of the shareholders.
- (b) By a First Supplemental Agreement dated 25 April 2000 between AIIH and ASB, AIIH and ASB agreed to amend certain terms and conditions in the Shareholders' Agreement dated 29 March 1996.
- (c) By a letter dated 29 March 1996, AIIH and ASB agreed on certain matters relating to the composition of the Board of Directors of the Company in the event ASB exercised its option to purchase from AIIH such number of ordinary shares in ASIB so as to increase its shareholding in ASIB to 51% after 31 March 1998. By a letter dated 27 April 1999, ASB waived its rights to purchase from AIIH the 2% equity interest in ASIB.
- (d) By a Second Supplemental Agreement dated 20 January 2003 by and among AIIH, ASB and ASCAP, ASB transferred its entire 49% equity interest in ASIB to ASCAP and ASCAP agreed to be bound by the terms and conditions of the Shareholders' Agreement dated 29 March 1996 (as amended by the First Supplemental Agreement dated 25 April 2000) (including all amendments, modifications and supplements thereto from time to time).
- (e) By a Third Supplemental Agreement dated 1 October 2003 by and among AIIH, ASB and ASCAP:
 - (i) ASB ceased to be a party to the Shareholders' Agreement dated 29 March 1996 (as amended by the First Supplemental Agreement dated 25 April 2000 and the a Second Supplemental Agreement dated 20 January 2003) and ASCAP became a party thereto in place of ASB and assumed all the rights and obligations of ASB under the Shareholders' Agreement; and
 - (ii) Section 3.04 of the Shareholders' Agreement dated 29 March 1996 was amended in accordance with the Third Supplemental Agreement dated 1 October 2003.

1.2 Section 1.04 of the ARSA

With effect from the date hereof, AIIH and ASCAP have agreed to amend certain terms of the Shareholders' Agreement dated 29 March 1996 (as amended by the First Supplemental Agreement dated 25 April 2000, the Second Supplemental Agreement dated 20 January 2003 and the Third Supplemental Agreement dated 1 October 2003) and to regulate their relationship inter se as shareholders of ASIB upon the terms and subject to the conditions stated herein. Accordingly, AIIH and ASCAP agree that the Shareholders' Agreement dated 29 March 1996 (as amended by the First Supplemental Agreement dated 25 April 2000, the Second Supplemental Agreement dated 20 January 2003 and the Third Supplemental Agreement dated 1 October 2003), with effect from the date hereof, be amended and restated in its entirety as follows. ASB also acknowledges the terms of this Agreement and agrees to be bound by the terms herein, in so far as such terms are applicable to it.

AIIH, ASCAP and ASB shall be referred to as "Parties" under this Agreement and "Party" shall mean any one of them. AIIH and ASCAP shall be referred to as "Shareholder Parties" under this Agreement and "Shareholder Party" shall mean any one of them.

SALIENT TERMS OF THE ARSA (continued)

1.3 Section 5.02(b) of the ARSA

ASCAP shall be entitled to dispose of all its shares (and not some only) to a bona fide unaffiliated third party purchaser provided always that ASCAP shall first notify AIH by notice in writing of the offer and price offered by bona fide unaffiliated third party purchaser ("ASCAP's Offer Notice") and AIH shall be entitled to exercise the Call Option (as defined in Section 6.01(a)) in respect of all the shares owned by ASCAP in ASIB and purchase all the shares (constituting not less than 49% of the entire issued and paid up share capital in ASIB) at the price of RM117,000,000.00 or the price offered by the bona fide unaffiliated third party purchaser, whichever is lower. If AIH exercises the Call Option, the provisions in Article VI shall *mutatis mutandis* apply save and except that the price for the shares shall be RM117,000,000.00 or the price offered by the bona fide unaffiliated third party purchaser, whichever is lower, and there shall be no transfer of such shares by ASCAP to a third party. The time limited for AIH to exercise the Call Option shall be six (6) months (or such longer period as may be mutually agreed upon by both Shareholder Parties hereto) from the date of AIH's receipt of ASCAP's Offer Notice ("AIH's Acceptance Period").

1.4 Section 6.01 of the ARSA

- (a) In consideration of the sum of RM10.00 to be paid by AIH to ASCAP (the receipt, adequacy and sufficiency of which ASCAP hereby acknowledges) and in consideration of the mutual covenants provided herein, ASCAP hereby unconditionally and irrevocably grants to AIH, commencing on 1 December 2008 until AIH or its Related Corporation ceases to be a shareholder of ASIB, ("the Option Period"), the right of AIH to require ASCAP to sell all (and not only some) of its shares in ASIB ("the Option Shares") to AIH or its Related Corporation ("the Call Option"), free from any security, mortgage, lien, charge, pledge, encumbrance and claim or right of any kind, and with the rights attaching thereto and subject to the terms and conditions of the sale and purchase agreement in the form as set out in Schedule I hereto ("the Sale and Purchase Agreement of Option Shares"). The consideration for the Option Shares (constituting not less than 49% of the entire issued and paid up share capital in ASIB) shall be RM117,000,000.00 save and except where the Call Option is exercised by AIH under the provisions of Section 5.02(b), the Sale and Purchase Agreement of Option Shares shall provide that the consideration shall be RM117,000,000.00 or the price offered by the bona fide unaffiliated third party purchaser, whichever is lower. The Parties agree that the execution of the Sale and Purchase Agreement of Option Shares and the proposed acquisition and proposed disposal of the Option Shares are subject to the prior approval of the Malaysian Minister of Finance under the Insurance Act, 1996 (acting under the recommendation of Bank Negara Malaysia). In addition, the Parties agree that the proposed acquisition of the Option Shares is subject to the prior approval of the Foreign Investment Committee ("FIC") of the Economic Planning Unit ("FIC Approval")* at the Malaysian Prime Minister's Department. The Parties hereby acknowledge that the terms and conditions of the Sale and Purchase Agreement of Option Shares shall not for any reason whatsoever be re-negotiated or amended (including without limitation the consideration, i.e. (i) RM117,000,000.00 in the event the Call Option is exercised by AIH under Section 6.01(a), or (ii) RM117,000,000.00 or the price offered by the bona fide unaffiliated third party purchaser, whichever is lower, in the event the Call Option is exercised by AIH under Section 5.02(b)) save where any amendments are imposed by Bank Negara Malaysia or the Malaysian Minister of Finance. Where such amendments are imposed, the Shareholder Parties shall negotiate in utmost good faith to make such amendments or substitute such provision as required by Bank Negara Malaysia or the Malaysian Minister of Finance or such provision as may be legally permissible to carry out as nearly as practicable the original terms and intent of that provision so as to obtain the approval of Bank Negara Malaysia or the Malaysian Minister of Finance for the purposes of Section 6.01 (c). The amended agreement shall then be deemed to be the Sale and Purchase Agreement of Option Shares for the purposes of this Article VI.

SALIENT TERMS OF THE ARSA (continued)

- (b) The Call Option may be exercised by AIH in respect of all the Option Shares by serving notice in writing to ASCAP of the exercise of the Call Option, any such notice to be served at any time during the Option Period and to be substantially in the form set out in Schedule 2 ("the Call Option Notice").
- (c) The Shareholder Parties agree that within seven (7) days following service of the Call Option Notice by AIH on ASCAP, both Shareholder Parties shall take the necessary steps and apply to Bank Negara Malaysia for the approval of the Malaysian Minister of Finance of the Sale and Purchase Agreement of Option Shares, the proposed acquisition and the proposed disposal of the Option Shares and the transactions contemplated therein on terms and conditions satisfactory to AIH in its sole and absolute discretion ("MOF Approval"). If AIH is prohibited by law or governmental policy from acquiring the Option Shares or any part thereof, AIH shall be entitled to find buyer who is not prohibited by law or governmental policy from acquiring the Option Shares or any part thereof.

1.5 Section 6.02 of the ARSA

Each of the Shareholder Parties hereto shall do all things necessary to obtain the MOF Approval and FIC Approval* and the Shareholder Parties hereto shall act in utmost good faith and due diligence and exercise respectively their best endeavours to assist each other in their applications aforesaid, including providing all necessary information and documents for the purpose of obtaining the MOF Approval and FIC Approval*.

1.6 Section 6.06 of the ARSA

Within three (3) days following the receipt of AIH's acceptance of the MOF Approval on terms and condition acceptable to AIH in its sole and absolute discretion, ASCAP and ASB shall deliver three (3) sets of the Sale and Purchase Agreement of Option Shares, duly executed by ASCAP and ASB, to AIH and AIH shall execute and date the Sale and Purchase Agreement of Option Shares. The Sale and Purchase Agreement of Option Shares shall provide that the consideration for the Option Shares (constituting not less than 49% of the entire issued and paid up share capital of ASIB) shall be RM117,000,000.00 save and except where the Call Option is exercised by AIH under the provisions of Section 5.02(b), the Sale and Purchase Agreement of Option Shares shall provide that the consideration shall be RM117,000,000.00 or the price offered by the bona fide unaffiliated third party purchaser, whichever is lower. In the event ASCAP or ASB fails to comply with this Section 6.06, the Sale and Purchase Agreement of Option Shares shall be deemed to have become effective and binding on the Parties on the expiry of the aforesaid three (3) day period and the terms of the Sale and Purchase Agreement of Option Shares shall be deemed incorporated.

1.7 Section 7.01 (c) of the ARSA

The Parties agree that in the event AIH exercise the Call Option under Section 5.02(b) or Section 6.01 within one (1) year from the date hereof, no dividends shall be declared and/or paid by ASIB for any reason whatsoever until after the completion of the Sale and Purchase Agreement of Option Shares.

* FIC Approval is not applicable after the FIC guideline on the acquisition of interests, mergers and takeovers is repealed with effect from 30 June 2009.

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FURTHER INFORMATION

1. Responsibility Statement

This Circular has been seen and approved by our Board who collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, after making all reasonable enquiries, and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

The information relating to ASIB and AIH was provided by the management of ASIB. Our responsibility is limited only to the extent of accurately reproducing such information in this Circular and we accept no further or other responsibility in respect of the accuracy of such information.

2. Consent

ASIB, AIH and auditors of ASIB, PricewaterhouseCoopers, respectively has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they may appear in this Circular.

3. Material Commitments

Save as disclosed below, as at LPD, our Board is not aware of any material commitments incurred or contracted by our Group which, upon becoming enforceable, may have a material impact on our Group's profits and net assets:

(a) Capital Commitment

	RM'000
- purchase of property, plant and equipment	2,146
- construction of hotel buildings	*
	<hr/> 2,146 <hr/>

- * A subsidiary had entered into a lease agreement on 31 January 1996 with the Municipality Council of Phnom Penh ("Municipality") which stipulated that the subsidiary has an obligation to construct a new hotel building and carry out renovation and refurbishment works on the existing hotel building. The expected date of completion is within 36 months from 1 October 1999. The amount contracted shall not be less than USD3 million for both buildings. An extension of time has been granted for the subsidiary to commence the construction of the new hotel building not later than 1 October 2002 and to be completed by 1 October 2004. The refurbishment work on the existing hotel building has since been completed but construction of the new hotel building has not begun as at to date.

The subsidiary was granted approval from the Municipality for a further deferment on the commencement of the construction of the new building to 2007. In March 2008, the subsidiary has decided to proceed with the construction of the new hotel building. The building plans have been submitted to the Municipality on March 2008 and are currently pending its approval.

FURTHER INFORMATION *(continued)***(b) Lease Commitment**

The Group has lease commitments under non-cancellable operating leases, which are payable as follows:

	RM'000
Not later than one year	10,545
Later than one year but not later than five years	40,915
Later than five years	28,004
	79,464

4. Contingent Liabilities

As at LPD, our Board is not aware of any material contingent liabilities of the Group which, upon becoming enforceable, will substantially affect the ability of our Group to meet its obligations as and when they fall due.

5. Documents Available for Inspection

The following documents will be available for inspection at the Registered Office of our Company at Level 3, East Wing, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan, during normal business hours between Mondays and Fridays (except public holidays) from the date of this Circular up to the date of the EGM:

- (a) Memorandum and Articles of Association of ASB and ASIB;
- (b) Audited consolidated financial statements of ASB and audited financial statements of ASIB for the past two (2) FYE 31 December 2009 and 2010; and
- (c) the ARSA and the SPA (which is appended thereto).

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NOTICE OF EXTRAORDINARY GENERAL MEETING



ADVANCE SYNERGY BERHAD

(Company No: 1225-D)

(Incorporated in Malaysia under the Companies Ordinance, 1915)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Advance Synergy Berhad ("Company") will be held at the Auditorium, Level 4, The Podium, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 6 June 2011 at 10.00 a.m., for the purpose of considering and, if thought fit, passing the following resolution with or without modifications:

ORDINARY RESOLUTION

PROPOSED DISPOSAL BY ADVANCE SYNERGY CAPITAL SDN BHD ("ASCAP"), A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY, OF ITS ENTIRE 49% EQUITY INTEREST IN ACE SYNERGY INSURANCE BERHAD ("ASIB") TO ACE INA INTERNATIONAL HOLDINGS, LTD ("AIIH") FOR A TOTAL CASH CONSIDERATION OF RM117.0 MILLION

"**THAT** authority be and is hereby given for the Company to grant approval to ASCAP, a wholly-owned subsidiary of the Company, to dispose of its entire 49% equity interest in ASIB comprising 49,000,000 ordinary shares of RM1.00 each in the issued and paid-up share capital of ASIB to AIIH for a total cash consideration of Ringgit Malaysia One Hundred and Seventeen Million only (RM117.0 million) ("Proposed Disposal") subject to such terms and conditions to be mutually agreed to by the parties or so directed by the courts or relevant authorities **AND THAT** the Directors of the Company be and are hereby authorised with full powers to approve, agree and assent to any conditions, variations, revaluations, modifications and/or amendments in any manner as may be deemed fit by the Directors of the Company and/or as may required/permitted by the courts or relevant authorities or deemed necessary, to deal with all matters, incidental, ancillary to and/or relating thereto and to execute or enter into the sale and purchase agreement for the Proposed Disposal, all such other agreements, documents, arrangements, undertakings, transfers, extensions, assignments, deeds, confirmations, declarations with any party or parties, to deliver or cause to be delivered all such documents and to do all such acts and things as they may consider necessary to implement, finalise and give full effect, accomplish or complete the Proposed Disposal and any other matters arising from and/or in connection with the Proposed Disposal **AND PROVIDED THAT** in the event that the outcome of any appeal or any proceedings filed or that may be filed by ASCAP in any court against or in connection with the Court Order dated 29 November 2010 made in Originating Summons No. D-24 NCC-332-2010, the decision of the Minister of Finance in approving the Proposed Disposal and/ or the Proposed Disposal is determined in the favour of ASCAP or is otherwise settled, the Company or ASCAP by approval granted by the Company and/or the Directors of the Company be and is/are hereby authorised with full powers to abort or proceed to complete the Proposed Disposal or to make any variations, modifications, settlement, reversals and/or revisions and/or renegotiations of the terms of the Proposed Disposal as may be deemed fit by the Directors of the Company and/or as may be required/permitted by the courts or relevant authorities and/or deemed necessary for completion, to deal with all matters, incidental, ancillary to and/or relating thereto and to execute or enter into all relevant agreements, documents etc with any party or parties, to deliver or cause to be delivered all such documents and to do all such acts and things considered as necessary in relation thereto."

NOTICE OF EXTRAORDINARY GENERAL MEETING (continued)

**BY ORDER OF THE BOARD
ADVANCE SYNERGY BERHAD**

HO TSAE FENG (Membership No. MAICSA 7028522)
Company Secretary

Selangor Darul Ehsan
20 May 2011

Notes:

- (i) A member of the Company entitled to attend and vote at the general meeting is entitled to appoint at least one (1) proxy but not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- (ii) A member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with shares of the Company standing to the credit of the said securities account.
- (iii) The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his/her attorney duly authorised and in the case of a corporation, the instrument appointing a proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
- (iv) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) shall be deposited at the Registered Office of the Company at Level 3, East Wing, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any other adjournment thereof.

PROXY FORM



ADVANCE SYNERGY BERHAD

(Company No: 1225-D)

(Incorporated in Malaysia under the Companies Ordinance, 1915)

I/We _____ Contact No. _____
(full name in block letters)

NRIC/Company No. _____ or CDS Account No. _____
(for nominee companies only)

of _____
(full address)

being a shareholder/shareholders of Advance Synergy Berhad, hereby appoint _____

_____ NRIC No. _____
(full name in block letters)

of _____
(full address)

or failing him/her _____ NRIC No. _____
(full name in block letters)

of _____
(full address)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held at the Auditorium, Level 4, The Podium, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan on Monday, 6 June 2011 at 10.00 a.m. or any adjournment thereof, and to vote as indicated below:

Please indicate with (✓) how you wish to cast your vote. If neither "FOR" nor "AGAINST" is indicated, the proxy will vote or abstain from voting at his/her discretion.

ORDINARY RESOLUTION	FOR	AGAINST
PROPOSED DISPOSAL		

Dated this _____ day of _____ 2011

Number of shares held _____

Signature _____

Notes:

- (i) A member of the Company entitled to attend and vote at the general meeting is entitled to appoint at least one (1) proxy but not more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- (ii) A member of the Company who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 may appoint at least one (1) proxy but not more than two (2) proxies in respect of each securities account it holds with shares of the Company standing to the credit of the said securities account.
- (iii) The instrument appointing a proxy in the case of an individual shall be signed by the appointer or his/her attorney duly authorised and in the case of a corporation, the instrument appointing a proxy must be under its common seal or under the hand of an officer or attorney duly authorised.
- (iv) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) shall be deposited at the Registered Office of the Company at Level 3, East Wing, Wisma Synergy, No. 72, Pesiaran Jubli Perak, Seksyen 22, 40000 Shah Alam, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any other adjournment thereof.



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AFFIX
STAMP

THE SECRETARY

ADVANCE SYNERGY BERHAD
Level 3, East Wing, Wisma Synergy
No. 72, Pesiaran Jubli Perak
Seksyen 22
40000 Shah Alam
Selangor Darul Ehsan

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