

**PACIFIC & ORIENT INSURANCE CO. BERHAD**

Company No. 12557 W

(Incorporated in Malaysia)

**Interim Financial Statements**

**For The Six Months Period Ended 31 March 2012**

Company No: 12557 W

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

	<u>Note</u>	As at 31 March <u>2012</u> RM'000 (Unaudited)	As at 30 September <u>2011</u> RM'000 (Audited)
<b>ASSETS</b>			
Property, plant and equipment		16,945	17,194
Investment properties		750	645
Prepaid land lease payments		320	322
Intangible assets		81	97
Deferred tax assets		3,914	4,450
Investments	2	682,772	616,934
Reinsurance assets	3	209,083	182,404
Insurance receivables	4	113,535	109,385
Other receivables		23,010	18,684
Cash and cash equivalents	5	15,695	55,693
<b>TOTAL ASSETS</b>		<u><u>1,066,105</u></u>	<u><u>1,005,808</u></u>
<b>EQUITY AND LIABILITIES</b>			
Share capital		100,000	100,000
Revaluation reserve		5,222	5,222
Available- for - sale reserve		351	(1,611)
Retained profits		114,958	117,660
<b>TOTAL EQUITY</b>		<u><u>220,531</u></u>	<u><u>221,271</u></u>
Insurance contract liabilities	6	736,134	674,485
Insurance payables	7	26,141	23,432
Hire purchase creditors		1,057	893
Tax payable		6,206	10,648
Borrowings	8	69,631	69,606
Other payables		6,405	5,473
<b>TOTAL LIABILITIES</b>		<u><u>845,574</u></u>	<u><u>784,537</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>1,066,105</u></u>	<u><u>1,005,808</u></u>

PACIFIC & ORIENT INSURANCE CO. BERHAD  
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CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS PERIOD ENDED 31 MARCH 2012

	<-----Non-Distributable----->			Distributable	
	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Available -for-sale reserve</u>	<u>Retained profits</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 October 2011	100,000	5,222	(1,611)	117,660	221,271
Total comprehensive income for the period	-	-	1,962	7,295	9,257
Dividend	-	-	-	(9,997)	(9,997)
At 31 March 2012	<u>100,000</u>	<u>5,222</u>	<u>351</u>	<u>114,958</u>	<u>220,531</u>
At 1 October 2010 As previously stated	100,000	5,222	(1,746)	90,842	194,318
Effects of adopting FRS 4	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,327)</u>	<u>(4,327)</u>
At 1 October 2010, as restated	100,000	5,222	(1,746)	86,515	189,991
Total comprehensive income for the period	-	-	1,678	21,539	23,217
Dividend	-	-	-	(6,000)	(6,000)
At 31 March 2011	<u>100,000</u>	<u>5,222</u>	<u>(68)</u>	<u>102,054</u>	<u>207,208</u>

**PACIFIC & ORIENT INSURANCE CO. BERHAD**  
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**CONDENSED INCOME STATEMENT**  
**FOR THE SIX MONTHS PERIOD ENDED 31 MARCH 2012**

	6 months ended 31 March <u>2012</u> RM'000	6 months ended 31 March <u>2011</u> RM'000
<b>Operating revenue</b>	<u>280,169</u>	<u>266,601</u>
Gross earned premiums	265,719	237,619
Premiums ceded to reinsurers	(89,608)	(72,516)
<b>Net earned premiums</b>	<u>176,111</u>	<u>165,103</u>
Investment income	12,144	11,138
Realised gains	763	303
Commission income	13,605	12,941
Fair values losses	(414)	(233)
Other operating revenue	376	375
<b>Other revenue</b>	<u>26,474</u>	<u>24,524</u>
Gross claims paid	(102,012)	(115,635)
Claims ceded to reinsurers	28,594	19,233
Gross change to contract liabilities	(59,344)	(35,892)
Change in contract liabilities ceded to reinsurers	20,277	29,724
<b>Net Claims</b>	<u>(112,485)</u>	<u>(102,570)</u>
Commission expense	(29,775)	(29,189)
Management expenses	(25,550)	(26,028)
Other operating expenses*	(21,009)	(1)
Finance costs	(2,864)	(1,520)
<b>Other expenses</b>	<u>(79,198)</u>	<u>(56,738)</u>
<b>Profit before taxation</b>	10,902	30,319
Taxation	(3,607)	(8,780)
<b>Net profit for the period</b>	<u>7,295</u>	<u>21,539</u>
Basic earnings per share (sen)	<u>7.30</u>	<u>21.54</u>
Diluted earnings per share (sen)	<u>7.30</u>	<u>21.54</u>

\* - Includes an amount of RM20,746,000 being impairment loss as described in Note 13.

PACIFIC & ORIENT INSURANCE CO. BERHAD  
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CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	6 months ended 31 March <u>2012</u> RM'000	6 months ended 31 March <u>2011</u> RM'000
<b>Net profit for the period</b>	7,295	21,539
<b>Other comprehensive income:</b>		
Changes in available-for-sale reserve		
Net gain arising during the period	3,391	2,585
Net realised gain transferred to Income Statement	<u>(775)</u>	<u>(348)</u>
	2,616	2,237
Tax effects thereon	(654)	(559)
Other comprehensive income for the period	<u>1,962</u>	<u>1,678</u>
Total comprehensive income for the period	<u><u>9,257</u></u>	<u><u>23,217</u></u>

CONDENSED STATEMENT OF CASH FLOW  
FOR THE SIX MONTHS PERIOD ENDED 31 MARCH 2012

	6 months ended 31 March <u>2012</u> RM'000	6 months ended 31 March <u>2011</u> RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash used in operations	(31,432)	(80,674)
Net tax paid	(8,144)	(6,224)
Investment income received	11,171	12,364
Interest paid	(1,425)	(32)
	<hr/>	<hr/>
Net cash used in operating activities	(29,830)	(74,566)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(114)	(182)
Disposal of property, plant and equipment	90	65
	<hr/>	<hr/>
Net cash used in investing activities	(24)	(117)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid	(9,998)	(6,000)
Borrowings	-	69,585
Decrease in hire purchase creditors	(146)	(121)
	<hr/>	<hr/>
Net cash (used in)/generated from financing activities	(10,144)	63,464
Net decrease in cash and cash equivalents	(39,998)	(11,219)
Cash and cash equivalents at beginning of year	55,693	60,165
	<hr/>	<hr/>
Cash and cash equivalents at end of period	15,695	48,946
	<hr/>	<hr/>
Cash and cash equivalents comprise the following:		
Cash and bank balances	15,695	48,946
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Notes to the Interim Financial Statements  
For The Six Months Period Ended 31 March 2012

1) Basis of Preparation

The interim financial statements of Pacific & Orient Insurance Co. Berhad ("the Company") is unaudited and have been prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia and the Guidelines/Circulars issued by Bank Negara Malaysia ("BNM").

The interim financial statements should be read in conjunction with the Company's audited financial statements for the financial year ended 30 September 2011.

The notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the financial year ended 30 September 2011.

The accounting policies and methods of valuation of assets and liabilities are consistent with those of the audited financial statements for financial year ended 30 September 2011 except for the adoption of the following FRSs, Amendments to FRSs and Issues Committee ("IC") Interpretations issued by Malaysian Accounting Standards Board:

Effective for financial periods beginning on or after 1 January 2011

Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosure for First-time Adopters
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Amendments to FRS 1	Additional Exemptions for First-time Adopters
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Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions
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Amendments to FRS 7	Improving Disclosures about Financial Instruments
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Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"

IC Interpretation 4	Determining whether an Arrangement contains a Lease
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IC Interpretation 18	Transfers of Assets from Customers
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Effective for financial periods beginning on or after 1 July 2011

IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
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Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)

1) Basis of Preparation (Cont'd)

FRSs 128, 131 and IC Interpretation 13 contained in the document entitled “Improvements to FRSs (2010)” (effective for financial periods on or after 1 January 2011), Amendments to IC Interpretation 14 (effective for financial periods on or after 1 July 2011) are not applicable to the Company.

The adoption of the other new/revised FRSs, Amendments to FRSs and IC Interpretations do not have any significant impact on the financial statements of the Company.

1a) Changes in Accounting Framework

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

The Company will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 30 September 2013. In presenting its first MFRS financial statements, the Company may be required to restate the comparative financial statements to amounts reflecting the application of the MFRS Framework. The majority of the adjustments (if any) required on transition will be made, retrospectively, against opening retained profits.

Nevertheless, the adoption of the MFRS Framework is not expected to have any significant impact on the financial statements of the Company.

PACIFIC & ORIENT INSURANCE CO. BERHAD (12557 W)  
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2) Investments

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
(a) Available-for-sale (AFS) financial assets:		
<u>At fair value:</u>		
Quoted shares	13,577	12,187
Unquoted shares	808	816
Unit trusts	13,613	13,403
Total available-for-sale financial assets	<u>27,998</u>	<u>26,406</u>
(b) Held-to-maturity investments:		
<u>At amortised cost:</u>		
Malaysian Government Securities	35,361	40,364
Net accretion of discount and amortisation of premiums	(180)	(151)
Total held-to-maturity investments	<u>35,181</u>	<u>40,213</u>
(c) Loan and receivables ("L&R"):		
<u>At amortised cost:</u>		
Deposits and placements with licensed financial institutions:		
Commercial banks	501,180	465,451
Investment banks	118,413	83,300
Bankers acceptances	-	1,564
	<u>619,593</u>	<u>550,315</u>
<u>At fair value:</u>		
Malaysian Government Securities	<u>35,261</u>	<u>40,423</u>
Total investments	<u>682,772</u>	<u>616,934</u>

PACIFIC & ORIENT INSURANCE CO. BERHAD (12557 W)  
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2) Investments (Cont'd)

(d) Carrying values of investments	<u>AFS</u> RM'000	<u>HTM</u> RM'000	<u>L&amp;R</u> RM'000	<u>Total</u> RM'000
At beginning of year	26,406	40,213	550,315	616,934
Addition	334	-	-	334
Placement			69,278	69,278
Disposal/Maturity /Repayment	(944)	(4,852)	-	(5,796)
Fair value gains recorded in:				
Other comprehensive income	2,616	-	-	2,616
Movement in impairment allowance	(414)	-	-	(414)
Amortisation of premium	-	(361)	-	(361)
Accreditation of discount	-	181	-	181
At end of year	<u>27,998</u>	<u>35,181</u>	<u>619,593</u>	<u>682,772</u>

3) Reinsurance Assets

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
Reinsurance of insurance contracts		
Claims liabilities	128,459	108,182
Premium liabilities	81,663	75,290
	<u>210,122</u>	<u>183,472</u>
Allowance for impairment	(1,039)	(1,068)
	<u>209,083</u>	<u>182,404</u>

4) Insurance Receivables

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
Outstanding premiums including agents, brokers' and co-insurers' balance	10,829	10,779
Due from reinsurers and ceding companies	112,280	108,084
	<u>123,109</u>	<u>118,863</u>
Allowance for Impairment	(9,574)	(9,478)
	<u>113,535</u>	<u>109,385</u>

PACIFIC & ORIENT INSURANCE CO. BERHAD (12557 W)  
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5) Cash and cash equivalents

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
Deposits and placements with licensed commercial banks (with maturity of less than three months)	9,035	50,894
Cash and bank balances	6,660	4,799
	<u>15,695</u>	<u>55,693</u>

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6) Insurance Contract Liabilities

	<----- 31 March 2012----->			<-----30 September 2011----->		
	Gross RM'000	Reinsurance RM'000 (Note 3)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 3)	Net RM'000
General insurance	736,134	(210,122)	526,012	674,485	(183,472)	491,013

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

	Note	<----- 31 March 2012----->			<-----30 September 2011----->		
		Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Provisions for claims reported		356,025	(90,031)	265,994	309,698	(74,913)	234,785
Provision for Incurred But Not Reported ("IBNR")		77,571	(23,158)	54,413	69,817	(20,208)	49,609
Provision of Risk Margin for Adverse Deviation ("PRAD")		42,234	(15,270)	26,964	36,971	(13,061)	23,910
Claims Liabilities	6.1	475,830	(128,459)	347,371	416,486	(108,182)	308,304
Premium Liabilities	6.2	260,304	(81,663)	178,641	257,999	(75,290)	182,709
		736,134	(210,122)	526,012	674,485	(183,472)	491,013

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6) Insurance Contract Liabilities (Cont'd)

6.1 Claims Liabilities

	<----- 31 March 2012----->			<-----30 September 2011----->		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At beginning of the period/year	416,486	(108,182)	308,304	380,018	(63,251)	316,767
Claims incurred in the current accident year (direct and facultative)	97,113	(33,400)	63,713	174,314	(56,197)	118,117
Adjustment to claims incurred in prior accident years (direct and facultative)	49,817	(12,496)	37,321	106,311	(31,981)	74,330
Claims incurred during the year (treaty inwards claims)	8,364	(13)	8,351	4,386	(160)	4,226
Movement in Provision of Risk Margin for Adverse Deviation ("PRAD") claims liabilities at 75% confidential level	5,263	(2,209)	3,054	8,566	(8,355)	211
Movement in claims handling expenses	799	(753)	46	809	(757)	52
Claims paid during the period/year	(102,012)	28,594	(73,418)	(257,918)	52,519	(205,399)
At end of period/year	475,830	(128,459)	347,371	416,486	(108,182)	308,304

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6) Insurance Contract Liabilities (Cont'd)

6.2 Premium Liabilities

	<----- 31 March 2012----->			<-----30 September 2011----->		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
At beginning of the period/ year	257,999	(75,290)	182,709	242,592	(58,387)	184,205
Premiums written during the period/ year	268,024	(95,981)	172,043	501,690	(170,964)	330,726
Premiums earned during the period/year	(265,719)	89,608	(176,111)	(486,283)	154,061	(332,222)
At end of period/year	<u>260,304</u>	<u>(81,663)</u>	<u>178,641</u>	<u>257,999</u>	<u>(75,290)</u>	<u>182,709</u>

PACIFIC & ORIENT INSURANCE CO. BERHAD (12557 W)  
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7) Insurance Payables

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
Due to reinsurers and ceding companies	24,104	21,363
Due to agents, brokers, co-insurers and insureds	2,037	2,069
	<u>26,141</u>	<u>23,432</u>

8) Borrowings

	Effective Interest rate per annum	Maturity	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
Subordinated term loan	8.09%	2020	<u>69,631</u>	<u>69,606</u>
Amount due more than 5 years			<u>69,631</u>	<u>69,606</u>

During the last financial year ended 30 September 2011, the Company obtained a 10-year unsecured subordinated term loan of RM70,000,000 less transaction costs from its holding company at an interest rate of 8.00 % per annum. The subordinated term loan is repayable in December 2020.

9) Total Capital Available

The capital structure of the Company as at 31 March 2012, as prescribed under the RBC Framework is provided below:

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
<u>Eligible Tier 1 Capital</u>		
Share capital (paid-up)	100,000	100,000
Retained earnings	114,958	117,660
	<u>214,958</u>	<u>217,660</u>
<u>Tier 2 Capital</u>		
Capital instruments which qualify as Tier 2 Capital	69,631	69,606
Revaluation reserve	5,222	5,222
AFS reserve	351	(1,611)
	<u>75,204</u>	<u>73,217</u>
Amounts deducted from Capital	<u>(3,914)</u>	<u>(4,450)</u>
Total Capital Available	<u>286,248</u>	<u>286,427</u>

10) Commitments

	31 March <u>2012</u> RM'000	30 September <u>2011</u> RM'000
Non-cancellable operating lease commitments		
Future minimum lease payments are as follows:		
Not later than 1 year	1,636	1,623
Later than 1 year and not later than 5 years	1,445	1,409
	<u>3,081</u>	<u>3,032</u>

Non-cancellable operating lease commitment are in respect of rental commitments of computer and office equipment.

11) Audit Qualification of the Preceding Annual Financial Statements

There was no qualification in the audit report of the preceding annual financial statements of the Company.

12) Seasonality or Cyclicity of operations

The business of the Company are not subject to seasonal or cyclical fluctuations.

13) Material Unusual Items

There were no material unusual items that affect the assets, liabilities, equity, net income or cashflow of the Company except for a one-off impairment of RM20,746,000 arising from the commutation of a reinsurance contract with a reinsurer which was charged to the income statement during the current period ended 31 March 2012.

14) Change in estimates

There were no changes in estimates of amounts reported in prior periods that have a material effect in the current period ended 31 March 2012.

15) Issuances, Cancellations, Repurchases, Resale and Repayments of Debts and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities during the current period ended 31 March 2012.

16) Dividends Paid

In respect of financial year ending 30 September 2012, the Directors had on 3 February 2012 declared a 1st interim dividend of 13.33 sen per share less tax at 25% paid on 8 February 2012 amounting to RM9,997,000.

17) Valuation of Property, Plant and Equipments Brought Forward

The valuations of freehold land and buildings and leasehold buildings classified as property, plant and equipment have been brought forward without any amendments from the preceding year's audited financial statements.

In accordance with the accounting policy of the Company, valuation of freehold land and buildings and leasehold buildings are performed once in every five years or earlier if the carrying values of the said revalued properties are materially different from their market values.

18) Material Events Subsequent to the End of the Reporting Period

There were no material events subsequent to the end of the period reported up to 31 May 2012 except for the declaration of the 2nd interim dividend of 16 sen per share less tax at 25% paid on 8 May 2012 amounting to RM12,000,000.

19) Effect of changes in Composition of the Company

There were no changes in the composition of the Company for the current period ended 31 March 2012.

20) Changes in Contingent Assets or Contingent Liabilities

There were no contingent assets or contingent liabilities since financial year ended 30 September 2011.