PACIFIC INSURANCE

Wholly-owned subsidiary of PACIFICMAS BERHAD (91603-K)

ANNUAL REPORT 2006

About Pacific Insurance

The Pacific Insurance Berhad has its roots going back to the 1950s when it was the Malayan business arm of The Netherlands Insurance Company, then the 12th largest insurance company in the world.

The local operations were reconstituted in 1984 into a local insurance company bearing the name, The Netherlands Insurance (Malaysia) Sdn Bhd. In 1994, The Pacific Bank Bhd (now known as PacificMas Berhad) acquired 70% of the Company's equity and changed its name to The Pacific Netherlands Insurance Berhad. The present name, The Pacific Insurance Berhad, was adopted when the Company became a wholly-owned subsidiary of PacificMas Berhad in 1995.

The Pacific Insurance Berhad offers all classes of general insurance and is known for being a pioneer and a quality provider of medical insurance. Among general insurance companies in Malaysia, The Pacific Insurance Berhad was ranked as the 2nd largest medical insurance provider and the largest individual medical insurance provider in 2006.

Its parent company, PacificMas Berhad, is listed on the Main Board of Bursa Malaysia Securities Berhad. It is an investment holding company with general insurance as its core business. Other businesses in the Group are the establishment and management of unit trust funds, leasing, hire-purchase and other related financing services, property investment and management, asset management and investment holding.

Key Achievements in 2006

- Gross written premium rose by 13.8% to a record high of RM126.79 million (2005 : RM111.45 million).
- Market ranking and market share in medical insurance in the general insurance industry rose to 2nd position and 9.95% respectively (2005 : 3rd position and 9.24% respectively).
- Market ranking and market share in individual medical insurance in the general insurance industry rose to 1st position and 18.87% respectively (2005: 2nd position and 18.27% respectively).
- Profit before Tax rose by 6.7% to RM14.29 million (2005 : RM13.39 million).

Contents

serving the needs of our customers...

Chairman's Statement

"On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of The Pacific Insurance Berhad for the financial year ended 31 December 2006."

OVERVIEW

The Malaysian general insurance industry continued to operate under a highly competitive operating environment in 2006. The industry recorded a lower growth rate of 3.2% in gross written premium in 2006 (2005 : 7.8%) to reach RM11.03 billion (2005: RM10.69 billion). This was mainly due to lower business volume in the motor sector as well as softening of premium rates for commercial property, aviation and cargo risks. Net written premium also registered a lower growth rate of 2.9% (2005 : 9.3%) to reach RM7.77 billion (2005 : RM7.55 billion).

COMPANY'S PERFOMANCE

FINANCIAL REVIEW

Despite the competitive operating environment, The Pacific Insurance Berhad performed reasonably well in 2006.

Gross Written Premium ("GWP") of our Company registered another milestone when it grew to a record level of RM126.79 million in 2006 (2005 : RM111.45 million). This represented a growth rate of 13.8% compared with a 13.5% growth in the previous year and outpacing the 3.2% growth recorded by the

(Note : All industry statistics are obtained from statistical bulletins published by ISM Insurance Services Malaysia Berhad)

we are customer focused...

industry. The growth in GWP was attributable to the continued support of our agents, brokers, reinsurers and corporate clients as well as bancassurance arrangement and other new strategic alliances initiated during the year.

Medical insurance continued to be the dominant class of our business with a 31% share of our Company's GWP in 2006 (2005 : 29%). This was followed closely by motor insurance, with a share of 27% (2005 : 28%). Our market ranking in medical insurance within the general insurance industry improved to 2nd position (2005 : 3rd position) while our market share increased to 9.95% (2005 : 9.24%).

Net Claims Incurred ratio deteriorated to 58.9% in 2006 from 50.0% in 2005 due to adverse claims experience. However, the Net Claims Incurred ratio of 58.9% was marginally better when compared with the industry's ratio of 59.4%. Our Company managed to reduce its Management Expenses ratio (ie. management expenses before bad and doubtful debts as a percentage of net earned premium) to 27.2% in 2006 from 28.9% in 2005. This will be progressively reduced through increase in premium income as well as continuous monitoring and control of management expenses.

As a result of the adverse claims experience, our Combined Ratio (comprising net commission, net claims incurred, management expenses and bad and doubtful debts expenses as a percentage of net earned premium) rose to 97.9% in 2006 (2005: 90.5%). Consequently, our Company recorded a lower underwriting surplus of RM2.03 million in 2006 (2005 : RM7.79 million).

Despite lower underwriting results, Profit before Tax increased by 6.7% to RM14.29 million in 2006 from RM13.39 million in 2005 due to better investment returns. Investment and other income improved to RM12.35 million in 2006 compared with RM5.69 million in 2005, mainly due to a RM4.24 million writeback in diminution in value of investment in 2006 (2005 : provision of RM3.26 million).

The balance sheet of our Company remains healthy. As at 31 December 2006, its total Assets increased to RM264.8 million (2005 : RM260.5 million) while total Equity increased to RM134.2 million (2005 : RM133.9 million).

Our Company's solvency margin position continued to improve. Based on the criteria stipulated by Bank Negara Malaysia, the surplus of admitted assets over the Margin of Solvency amounted to RM41.4 million as at 31 December 2006 (2005 : RM36.8 million).

An interim gross dividend of 15 sen per share less income tax amounting to RM10.8 million in respect of the financial year ended 31 December 2006 was paid to our holding company, PacificMas Berhad (2005 : 12.5 sen per share less income tax amounting to RM9.0 million). No recommendation is made for the payment of a final dividend.

OPERATIONAL REVIEW

Business Development

Our Company successfully concluded a bancassurance arrangement with a leading financial institution on 1 June 2006. This arrangement started with the financial institution marketing our Company's medical insurance product. A new Personal Accident product was also developed for the exclusive distribution of this financial institution in the later part of 2006 and was officially launched in January 2007.

▲ 2007 Agency Excellence Awards - Recipients of Star Award

▲ 2007 Agency Excellence Awards - Recipients of Rising Star Award

Our Company also formalised a strategic alliance with a leading motor vehicle distribution group to provide insurance coverage to its customers and its in-house business. A new Personal Accident product was developed for the exclusive sale by this motor vehicle distribution group in the fourth quarter of 2006. Following this alliance, our Company was admitted to the motor insurance panel of this distribution group with effect from 1 January 2007.

Close understanding and relationship established with existing intermediaries and business partners continued to fuel business growth. Our Company will continue to expand our agency network by recruiting selected agents to boost premium growth. Necessary training on technical and professional skills were conducted nationwide as part of the Continuing Professional Development programme. Strategic partnerships and alternative distribution channels are continually being sought to expand our market share. In addition, several key staff were recruited at Head Office and branch level in 2006

▲ 2007 Agency Excellence Awards - Recipients of Most Profitable Agent Award

▲ 2007 Agency Excellence Awards - Recipients of Superstar Award

▲ 2007 Agency Excellence Awards - Recipients of Rookie Award

▲ Recipients of 2006 Chairman's Awards

▲ Launch of OCBC bancassurance arrangement on 1 June 2006

▲ Jungle Walk to foster relationship building amongst staff and business partners

to develop new business as well as to support existing business growth.

As one of the leaders in medical insurance, our Company markets one of the widest range of medical insurance products. In ensuring that our products remain viable and keep pace with medical claims inflation, we have re-priced upwards the premium rates of medical products exclusively distributed by two of our major business partners. This re-pricing was approved by Bank Negara Malaysia in October 2006 and the new rates became effective on 1 November 2006.

Operational Improvements

Our Company continues to enhance operational workflow to improve operational efficiency. Selected policy and claims processing functions are progressively being centralised to improve the quality and speed of our delivery to customers. In addition, this allows personnel at branches to be more effectively redeployed to perform marketing functions.

CORPORATE DEVELOPMENT

On 11 December 2006, our holding company announced to Bursa Malaysia Securities Berhad that the proposed restructuring of the equity and insurance business operations of PacificMas Berhad and the Great Eastern Group has been discontinued.

PROSPECTS

The outlook for the insurance industry is expected to be better in 2007 in view of the encouraging economic outlook for 2007, spurred by the implementation of the Ninth Malaysia Plan.

Notwithstanding the brighter outlook for the insurance industry, our Company's priority in 2007 is to consolidate its position by focusing on achieving higher underwriting surplus after having achieved 5 successive years of strong GWP growth.

Business development activities undertaken in the first four months of 2007 included the following :

a) Launch of a personal accident product for the exclusive distribution of a leading financial institution.
b) Re-launch of our Company's critical illness insurance product, PACIFIC Medi-Help Insurance.
c) Launch of a new personal accident product for foreign workers called PACIFIC X'tra PA.

Our Company will continue to implement stringent measures on underwriting effectiveness and claims handling to improve bottom-line profitability and at the same time, to focus on improving operational efficiency to further increase customer service standards. Following the successful implementation of the electronic motor cover note system two years ago, the Company will introduce the use of electronic cover notes for non-motor classes of business before end-2007. In addition, our Company will implement the compulsory use of our panel workshops effective May 2007 and this is expected to better manage motor claims and control motor insurance fraud.

Barring unforeseen circumstances, the prospects of our Company in 2007 are expected to be better than in 2006.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to record the Board's appreciation to all staff for their commitment, dedication and hard work during the year. I would also like to extend our appreciation to the regulatory bodies for their guidance and to our customers, agents, brokers and reinsurers for their continuous support.

Last but not least, I also wish to take this opportunity to extend my appreciation to my fellow Directors for their counsel and active participation in the Board's deliberations.

CHOI SIEW HONG, KMN, JMN
CHAIRMAN

25 APRIL 2007

Corporate Information

BOARD OF DIRECTORS

Choi Siew Hong
KMN, JMN
(Chairman)

Tan Sri Dato' Nasrudin Bin Bahari
PSM, DSPN, JMN

Keong Choon Keat

Lai Wan

Ng Hon Soon

AUDIT COMMITTEE

Tan Sri Dato' Nasrudin Bin Bahari
PSM, DSPN, JMN
(Chairman)

Keong Choon Keat

Lai Wan

RISK MANAGEMENT COMMITTEE

Tan Sri Dato' Nasrudin Bin Bahari
PSM, DSPN, JMN
(Chairman)

Keong Choon Keat

Lai Wan

REGISTERED OFFICE

Level 19, Menara Prudential
No.10, Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : 03-2176 1000
Fax : 03-2026 6868

COMPANY SECRETARIES

Tan Cheng Hoon

Chong Yok Hua

AUDITORS

Ernst & Young

Chartered Accountants

Board of Directors

Choi Siew Hong
KMN, JMN

Chairman of the Board

Non-Independent Non-Executive Director

Member of Nomination Committee of PacificMas Berhad

Member of Remuneration Committee of PacificMas Berhad

Malaysian - age 85

Tan Sri Dato' Nasrudin Bin Bahari
PSM, DSPN, JMN

Member of the Board

Independent Non-Executive Director

Chairman of Audit Committee

Chairman of Risk Management Committee

Malaysian - age 69

we create value for our stakeholders...

Keong Choon Keat

Member of the Board

Independent Non-Executive Director

Member of Audit Committee

Member of Risk Management Committee

Chairman of Remuneration Committee of PacificMas Berhad

Member of Nomination Committee of PacificMas Berhad

Malaysian - age 62

Lai Wan

Member of the Board

Independent Non-Executive Director

Member of Audit Committee

Member of Risk Management Committee

Malaysian - age 64

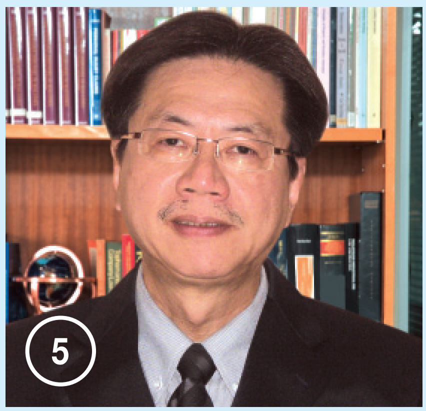
Ng Hon Soon

Member of the Board

Non-Independent Non-Executive Director

Malaysian - age 46

Management Team



1 **Sonny Tan Siew Hock**
Chief Executive Officer

2 **Ong Boon Hock**
Senior General Manager

3 **Neoh Guan Hup**
General Manager - Branch Operations

4 **Paul Lee Seng Hock**
Assistant General Manager - Underwriting & Reinsurance

5 **Yong Wee Ghee**
Assistant General Manager - Southern Region

6 **Richard Liang Lip Kin**
Senior Manager - Medical Insurance

7 **Jennifer Ong Bee Choo**
Senior Manager - Research & Systems

8 **Kam Kah Weng**
Senior Manager - Branch Operations & Agency Administration

we go the extra mile for you...

9 **Khoo Kin Mun**
Senior Manager - KL Agencies

10 **Michael Choo Heng Sai**
Senior Manager - Broking

11 **Shirley Chen Ooi Wai**
Senior Manager - Financial Services

12 **Tay Yew Lean**
Senior Manager - Direct Business & Customer Care

13 **Felix Denis Symons**
Senior Manager - Special Projects

14 **Choong Phan Onn**
Manager - Personal Lines

15 **Freddy Wee Chee Sung**
Manager - Policy Processing

16 **Unissuary Muniandy**
Manager - Non-Medical Claims

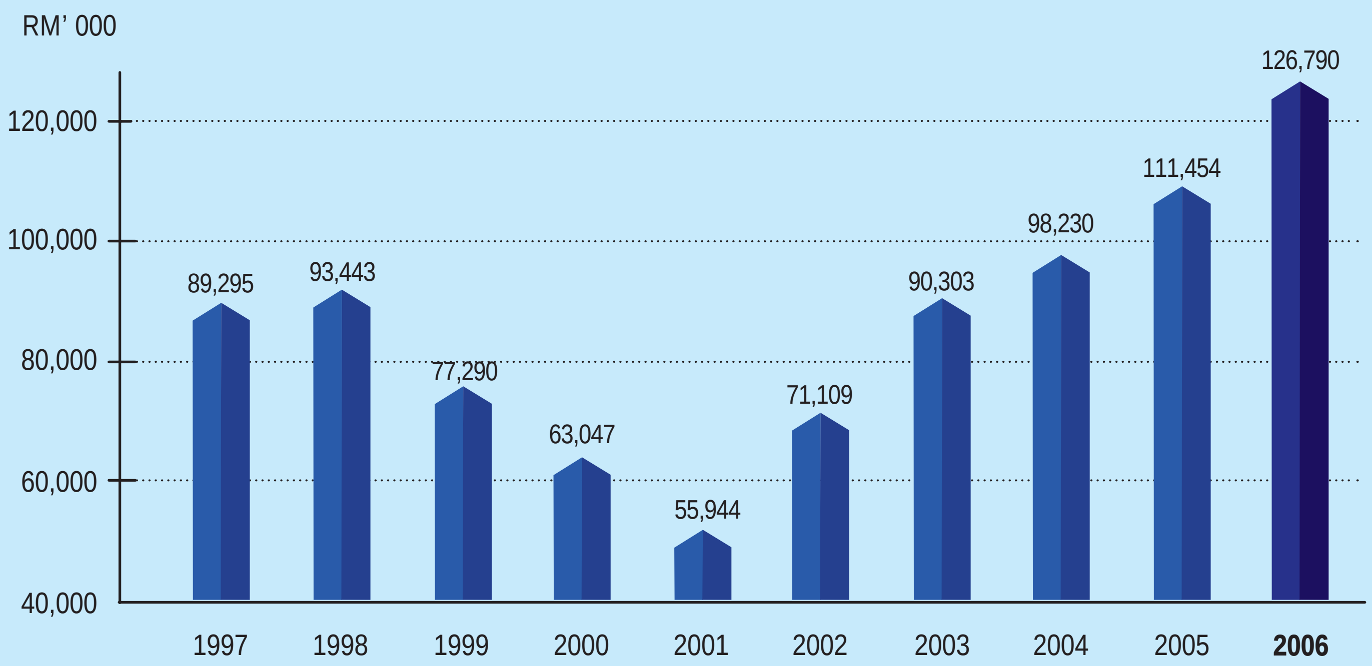
Financial Highlights

KEY FINANCIAL INDICATORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

RM'000	1997	1998	1999	2000
Gross Premiums	89, 295	93, 443	77, 290	63, 047
Underwriting Surplus / (Deficit)	1, 804	(11, 466)	6, 332	4, 844
Profit Before Tax	(12, 458)	918	19, 024	5, 613
Total Equity	40, 208	55, 716	75, 204	79, 055
Total Assets	123, 505	152, 317	159, 306	153, 505

GROSS PREMIUMS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

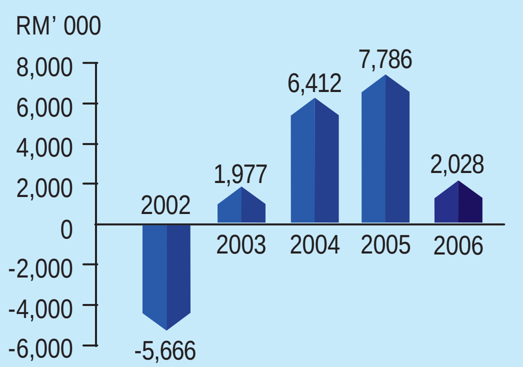
RM'000	1997	1998	1999	2000
Medical	15, 511	25, 313	18, 717	13, 237
Motor	30, 549	28, 085	19, 433	16, 949
Fire	23, 951	23, 052	24, 472	20, 672
Others	19, 284	16, 993	14, 668	12, 189
Total	**89, 295**	**93, 443**	**77, 290**	**63, 047**



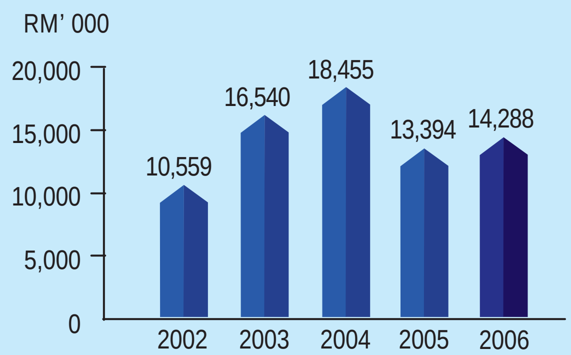
GROSS PREMIUMS
10 YEARS TRACK RECORD

2001	2002	2003	2004	2005	2006
55, 944	71, 109	90, 303	98, 230	111, 454	126, 790
392	(5, 666)	1, 977	6, 412	7, 786	2, 028
9, 485	10, 559	16, 540	18, 455	13, 394	14, 288
120, 913	126, 035	128, 267	133, 285	133, 917	134, 161
191, 443	240, 435	245, 510	271, 496	260, 538	264, 829

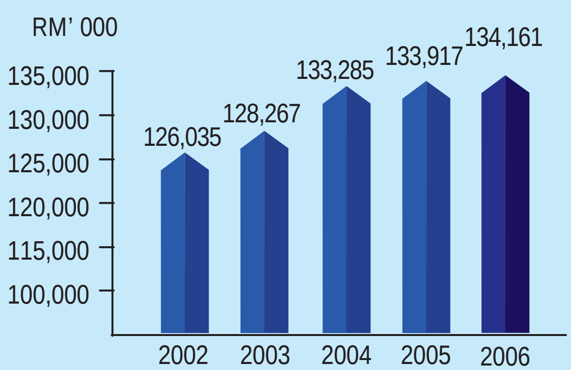
2001	2002	2003	2004	2005	2006
13, 358	15, 093	27, 312	33, 892	32, 423	39, 416
17, 415	21, 596	22, 463	23, 038	31, 143	34, 770
13, 508	16, 690	17, 505	17, 835	19, 532	21, 215
11, 663	17, 730	23, 023	23, 465	28, 356	31, 389
55, 944	**71, 109**	**90, 303**	**98, 230**	**111, 454**	**126, 790**



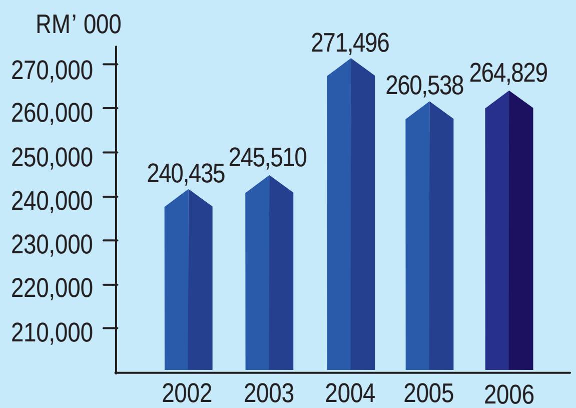
UNDERWRITING SURPLUS / (DEFICIT)
5 YEARS TRACK RECORD



PROFIT BEFORE TAX
5 YEARS TRACK RECORD



TOTAL EQUITY
5 YEARS TRACK RECORD



TOTAL ASSETS
5 YEARS TRACK RECORD

Our Range of Products

Pacific Insurance is known for its competency and expertise in medical insurance. We have one of the widest range of medical insurance products in the market. In 2006 :

- market ranking and market share in medical insurance in the general insurance industry rose to 2nd position and 9.95% respectively (2005 : 3rd position and 9.24% respectively); and
- market ranking and market share in individual medical insurance in the general insurance industry rose to 1st position and 18.87% respectively (2005: 2nd position and 18.27% respectively).

Our medical insurance market position and market share in the general insurance industry		
Year	Market Share	Market Ranking
2006	9.95%	2
2005	9.24%	3
2004	10.00%	2
2003	8.76%	3
2002	5.70%	4
2001	5.19%	6

(Note: Based on industry statistics from ISM Insurance Services Malaysia Berhad)

Medical Insurance

- PACIFIC EMA Insurance
  (Emergency Medical Assistance Insurance)
- PACIFIC Home Healthcare Insurance
- PACIFIC Medi-Care Insurance
- PACIFIC Medi-Help Insurance
- PACIFIC Medi-Major Insurance
- PACIFIC Medi-Pac Insurance
- PACIFIC Medi-Preferred Insurance
- Group Hospitalisation & Surgical Insurance
- EVO Healthcare Insurance
- Golden M Healthcare Insurance
- Golden M Major Medical Insurance
- PHM Healthcare Insurance
- PHM VIP Healthcare Insurance
- Sihat Malaysia Insurance

we take care of your needs...

Fire Insurance

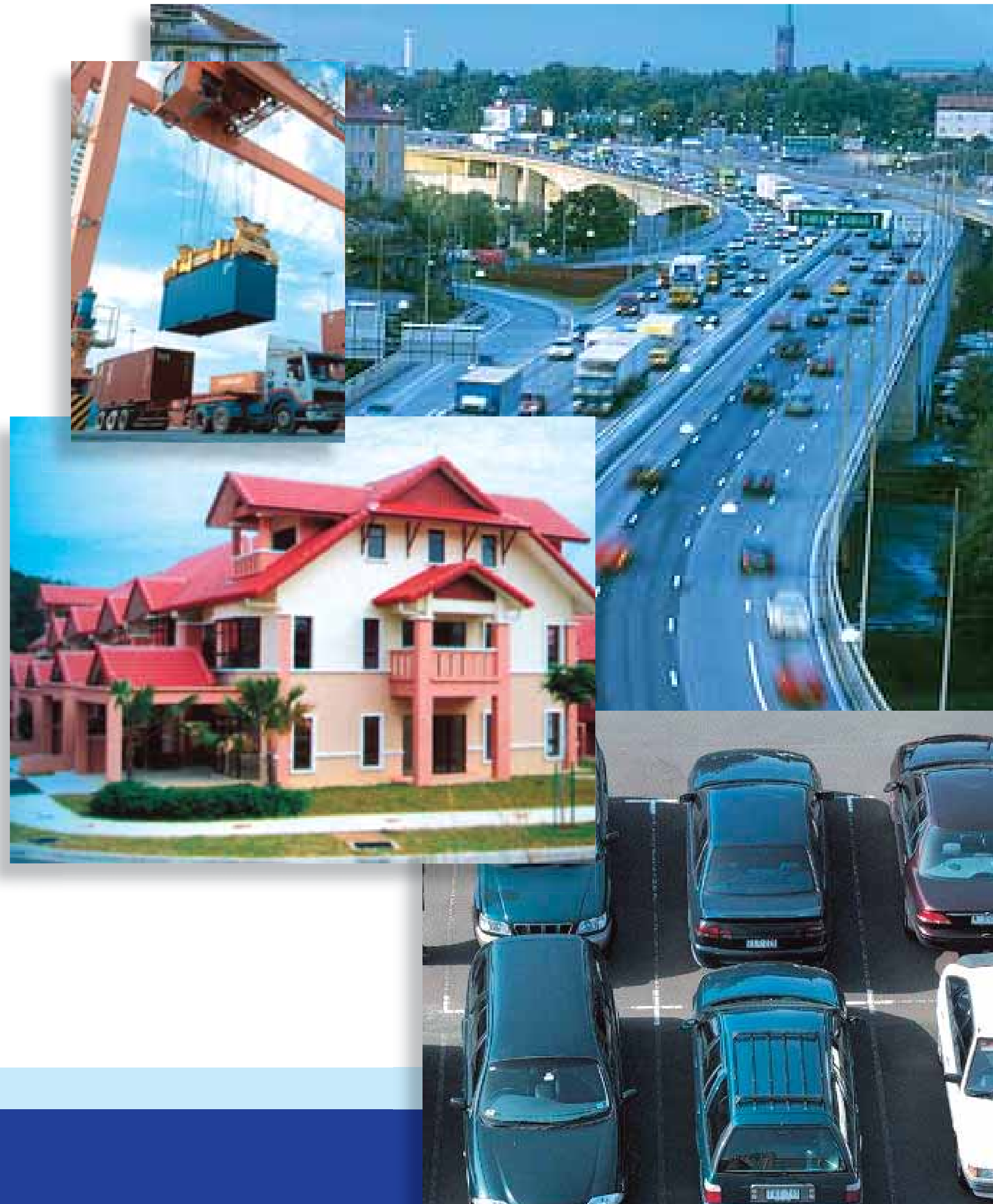
- Consequential Loss of Profit
- Home Content
- Houseowner / Householder
- Material Damage

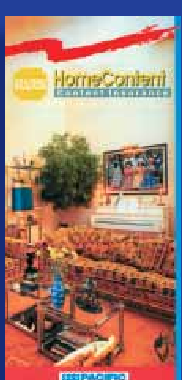
Motor Insurance

- Private Cars
- Commercial Vehicles
- Motorcycles

Other Insurances

- Accident
- Bonds
- Engineering
- Liability
- Marine Cargo
- Personal Accident
- Workmen Compensation





Fire Insurance

Personal Accident Insurance

FINANCIAL STATEMENTS 2006

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITY

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a wholly-owned subsidiary of PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

RESULTS

	RM
Net profit for the year	11,044,437

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

In the opinion of the directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the change in accounting policy due to the adoption of the new Financial Reporting Standard ("FRS") 140: Investment Property which has resulted in a decrease in the Company's profit for the financial year by RM24,642 as disclosed in Note 2.3 (c)(ii) to the financial statements.

DIVIDENDS

The amount of dividends paid by the Company since 31 December 2005 were as follows:

	RM
In respect of the financial year ended 31 December 2006	
Interim dividend of 15.0 sen per share less 28% taxation, paid on 7 December 2006	10,800,000

The directors do not propose any final dividend for the financial year ended 31 December 2006.

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Choi Siew Hong
Tan Sri Dato' Nasrudin bin Bahari
Keong Choon Keat
Lai Wan
Ng Hon Soon

In accordance with Article 65 of the Company's Articles of Association, Tan Sri Dato' Nasrudin bin Bahari will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act, 1965, Choi Siew Hong will retire at the forthcoming Annual General Meeting and a resolution will be proposed for his re-appointment as director under the provision of Section 129(6) of the said Act to hold office until the conclusion of the next Annual General Meeting of the Company.

CORPORATE GOVERNANCE

(a) Board Responsibility and Oversight

Board Responsibility

The Board is committed to ensure that the highest standards of corporate governance are observed in the Company so that the affairs of the Company are conducted with professionalism, accountability and integrity with the objective of enhancing shareholders' value as well as safeguarding the interest of other stakeholders.

The Board is ultimately responsible for the proper stewardship of the Company's resources, the achievement of corporate objectives and the adherence to good corporate citizenship. The Board is committed to uphold good corporate governance practices in conformity with Bank Negara Malaysia ("BNM") Guidelines, JPI/GPI 1: Duties and Responsibilities of Directors and Chief Executive of Insurers, JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers and JPI 13/2003: Corporate Governance Standards. The Company has complied with the prescriptive applications and adopts management practices that are consistent with JPI/GPI 25 and JPI 13/2003.

The Board has overall responsibility for the strategic direction and development plans of the Company, as it effectively leads and controls the Company. The Board meets regularly and has a formal schedule of matters specifically reserved for its consideration and approval, which includes the approval and review of corporate business and strategic plans, business operations and performance goals of the Company. The Board's approval is also sought for transactions by the Company on outsourcing of certain business functions, major acquisitions and disposals of assets, as well as material related party transactions. In addition, the Board also reviews and approves the authority levels for the Company's core functions, investment policies, risk management and compliance issues.

The directors have attended the Corporate Directors' Training Programme conducted under the auspices of either the Companies Commission of Malaysia or the mandatory training programmes, namely the Mandatory Accreditation Programme and Continuing Education Programme prescribed by Bursa Malaysia Securities Berhad (for listed companies). The directors are promptly updated with the policy and administrative changes or new guidelines issued by BNM and relevant professional bodies. On an ongoing basis, directors are kept informed through relevant training programmes and briefings to assist them to keep abreast with the developments in the market place.

Board Balance and Meetings

The Board comprises a non-independent non-executive Chairman, three independent non-executive directors and one non-independent non-executive director. On a yearly basis, the directors are subject to an internal declaration to review their status of compliance with Part XII of the Insurance Regulations, 1996 on the minimum criteria of a "fit and proper person". In accordance with the Insurance Act, 1996, all directors are appointed and reappointed to the Board after prior approval has been obtained from BNM.

The directors are persons of calibre, credibility and integrity. Collectively, they bring with them a wide range of business and management experiences, skills and specialised knowledge that are required to lead the Company.

CORPORATE GOVERNANCE (CONT'D)

(a) Board Responsibility and Oversight (cont'd)

Board Balance and Meetings (cont'd)

The Board met 11 times during the financial year and the attendance of the directors was as follows:

Name	Number of meetings Attended	%
Choi Siew Hong (Chairman)	11/11	100
Tan Sri Dato' Nasrudin bin Bahari	10/11	91
Keong Choon Keat	11/11	100
Lai Wan	11/11	100
Ng Hon Soon	11/11	100

Board Committees

To support the execution of its duties and functions, the Board delegates certain responsibilities to the Board Committees, namely Audit Committee ("AC") and Risk Management Committee ("RMC") which operate within clearly defined terms of reference. The Chairman of the respective committees report to the Board on matters discussed at the meetings of the committee.

(i) Audit Committee

The AC comprises three members who are independent non-executive directors. The composition of the committee is as follows:

Tan Sri Dato' Nasrudin bin Bahari (Chairman)
Independent Non-Executive Director

Keong Choon Keat
Independent Non-Executive Director

Lai Wan
Independent Non-Executive Director

The AC met 8 times during the financial year and the attendance of the members was as follows:

Name	Number of meetings Attended	%
Tan Sri Dato' Nasrudin bin Bahari (Chairman)	8/8	100
Keong Choon Keat	8/8	100
Lai Wan	8/8	100

CORPORATE GOVERNANCE (CONT'D)

(a) Board Responsibility and Oversight (cont'd)

Board Committees (cont'd.)

(i) Audit Committee (cont'd)

The AC's terms of reference are in compliance with JPI/GPI 13: Guidelines on Audit Committee and Internal Audit Departments for Insurance Companies. They include the reinforcement of the independence and objectivity of the internal and external audit functions and its scope and results. The AC reviews the findings of the internal/external auditors and those of the examiners from Bank Negara Malaysia, as well as monitoring of the Management's responses and actions taken to address the findings. The AC also reviews the Company's financial statements, the proposed changes in accounting standards and policies on the financial statements and the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets. Besides reviewing and approving the annual Audit Plan, the AC also evaluates the cost effectiveness, independence and objectivity of the external auditors before nominating them to the Board for recommendation to the shareholders on the appointment or reappointment. The AC's review and approval are also sought for any outsourcing of non-audit services provided by external auditors, internal audit services provided by another firm of chartered accountants and recurrent related party transactions undertaken by the Company.

(ii) Risk Management Committee

The RMC supports the Board in the overall risk management oversight of the Company and comprises three members who are independent non-executive directors. The composition of the committee is as follows:

Tan Sri Dato' Nasrudin bin Bahari (Chairman)
Independent Non-Executive Director

Keong Choon Keat
Independent Non-Executive Director

Lai Wan
Independent Non-Executive Director

The RMC met 4 times on a quarterly basis and the attendance of the members was as follows:

Name	Number of meetings Attended	%
Tan Sri Dato' Nasrudin bin Bahari (Chairman)	4/4	100
Keong Choon Keat	4/4	100
Lai Wan	4/4	100

BNM's JPI: 13/2003, requires the RMC to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively. The responsibilities of the RMC include reviewing periodic management reports on risk exposure and management strategies, ensuring adequacy of infrastructure, resources and systems for effective risk management, assessing adequacy of policies and framework for identifying, measuring, monitoring and controlling risks, as well as reviewing the extent to which these are operating effectively.

CORPORATE GOVERNANCE (CONT'D)

(a) Board Responsibility and Oversight (cont'd)

Board Committees (cont'd)

Nomination and Remuneration Committees

With the approval given by BNM, the functions and responsibilities of these two committees are undertaken by the Nomination Committee ("NC") and Remuneration Committee ("RC") of the holding company, PacificMas Berhad ("PacificMas"). The terms of reference of both the NC and the RC are in compliance with the guidelines on the functions and responsibilities of the committees for insurers issued under BNM's JPI 13/2003.

(i) Nomination Committee

The composition of the NC comprising the directors of PacificMas is as follows:

Tan Sri Dato' Wong Kum Choon (Chairman)
Independent Non-Executive Director

Choi Siew Hong
Non-Independent Non-Executive Director

Kol. (B) Dato' Ir. Cheng Wah
Independent Non-Executive Director

Keong Choon Keat
Independent Non-Executive Director

Wong Nang Jang
Non-Independent Non-Executive Director

The NC met 4 times during the financial year and the attendance of the members was as follows:

Name	Number of meetings Attended	%
Tan Sri Dato' Wong Kum Choon (Chairman)	4/4	100
Choi Siew Hong	4/4	100
Kol. (B) Dato' Ir. Cheng Wah	4/4	100
Keong Choon Keat	4/4	100
Wong Nang Jang	4/4	100

The NC is entrusted with the responsibility to consider and evaluate the appointment of new directors and directors to fill the seats on Board Committees of the Company and to recommend candidates to the Board and BNM for appointment and reappointment or re-election. The committee is also given the responsibility to recommend to the Board the appointment of the Chief Executive Officer and evaluate the performance of key senior officers of the Company.

CORPORATE GOVERNANCE (CONT'D)

(a) Board Responsibility and Oversight (cont'd)

Board Committees (cont'd)

Nomination and Remuneration Committees (cont'd)

(i) Nomination Committee (cont'd)

With regard to retiring directors, the NC reviews the suitability and competencies and contributions of directors for re-election and reappointment before recommending them to the Board for submission to BNM for approval and subsequently to the shareholders for approval at the Annual General Meeting.

The NC also annually reviews the Board structure, size and composition and the mix of skills and core competencies required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole and the Board Committees and the contributions of each individual director. In addition, the NC deliberates on the Board's succession plan as and when appropriate.

(ii) Remuneration Committee

The composition of the RC comprising the directors of PacificMas is as follows:

Keong Choon Keat (Chairman)
Independent Non-Executive Director

Choi Siew Hong
Non-Independent Non-Executive Director

Sharriffudin Ahmad Taff
Non-Independent Non-Executive Director

Wong Nang Jang
Non-Independent Non-Executive Director

The RC met 4 times during the financial year and the attendance of the members was as follows:

Name	Number of meetings Attended	%
Keong Choon Keat (Chairman)	4/4	100
Choi Siew Hong	4/4	100
Sharriffudin Ahmad Taff	4/4	100
Wong Nang Jang	4/4	100

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate the directors, Chief Executive Officer and key senior officers of the quality required to manage the Company. In this respect, the RC is responsible for reviewing and recommending the remuneration packages of the directors, Chief Executive Officer and key senior officers of the Company to the Board of Directors for consideration and approval.

CORPORATE GOVERNANCE (CONT'D)

(b) Management Accountability

The Company has an organisational structure with clearly communicated defined lines of accountability and delegated authority to ensure proper identification of responsibilities and segregation of duties. The operational authority limits covering all aspects of operations which include underwriting, claims and finance are reviewed and updated as appropriate. Clearly documented job descriptions for all management and executive employees are maintained while formal appraisals of performance are conducted at least once annually. Any changes to the organisational structure are communicated to all staff.

The directors, Chief Executive Officer and senior officers of the Company responsible for processing credit facilities do not have any direct or indirect interest in the facilities, as referred to in Section 54 of the Insurance Act 1996.

The directors who hold office or possess property do not have any direct or indirect interest, which is in conflict with their duty or interest as directors, as referred to in Section 55 of the Insurance Act 1996.

(c) Corporate Independence

All material related party transactions have been disclosed in the audited financial statements in accordance with FRS 124_{2004}: Related Party Disclosures. All related party transactions are tabled at the AC for review and approval.

(d) Internal Controls and Operational Risk Management

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations. There is a continuous process present for identifying, evaluating and managing the significant risks faced by the Company. This process is periodically reviewed by the Board. In furtherance of its duties, the Board has delegated specific responsibilities to the AC and RMC as part of the Company's internal control and risk management process.

A formal risk management framework has been maintained in the Company by the Risk Management Unit ("RMU") which is headed by the Chief Executive Officer as the Risk Management Officer and consists of a Risk Management Coordinator and senior management officers in the Company. The RMU reports to the RMC of the Company.

During the financial year, the following risk management initiatives were undertaken by the RMU:

(i) The RMU reviewed the risks identified and reported its risk assessment results to the RMC and the Board for consideration on a quarterly basis.

(ii) The RMU assessed and identified from time to time, the significant risks faced by the Company such as business strategic risks and operational risks, which included areas related to regulatory and compliance issues, financial, underwriting and claims risks and business continuity plan. The mitigating plans and control measures were formulated and implemented to address these risks and were monitored in terms of their timeliness and effectiveness. In addition, the RMU also considered the target dates for possible improvement in the risk rating, while working towards them with the appropriate follow-up of action plans.

CORPORATE GOVERNANCE (CONT'D)

(d) Internal Controls and Operational Risk Management (cont'd)

(iii) The RMU maintained an updated database of all risks and controls in the form of detailed risk registers and individual risk profiles for the Company. The likelihood of the key risks occurring and their impact are periodically monitored and rated.

The disclosure of the Company's financial risk management policies are set out under Note 27 in the financial statements.

Apart from the above, the following key committees, among others, continue to serve the objective of enhancing the risk management culture in the Company:

(i) The Corporate Disaster Recovery Planning Committee is tasked to prepare, review and periodically test the effectiveness of the Company's business continuity plan to support critical business operations. Pursuant to the requirement of BNM's GPIS1: Guidelines on Management of IT Environment, the Company had in place the Business Resumption and Contingency Plan ("BRCP") which was revised and approved by the Board on 30 March 2006. The BRCP serves to ensure that critical resources and services of the Company are available in the event of system failures or business interruptions. It also aims to ensure that possible disruptions to operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had successfully tested the BRCP and the related IT Disaster Recovery Plan during the year.

(ii) The Information Technology Steering Committee ("ITSC") has the responsibility to monitor the overall efficiency, performance and effectiveness of IT services. The ITSC meets regularly to review the Company's IT operations, plans, progress of action plans, as well as investment in IT resources and to make any recommendations thereof when necessary. The IT plans formulated during the financial year included the short-term and medium-term IT plans which are aligned to the business direction of the Company.

(iii) The Anti-Money Laundering and Counter-Financing of Terrorism ("AML/CFT") – Management Committee comprising the Chief Executive Officer, Compliance Officers at the Head Office as well as Branches, and key senior officers of the Company is in place to manage the risk and areas related to AML/CFT. The Compliance Officer conducted visits to several branches during the year to facilitate the implementation of the AML/CFT initiatives of the Company. In addition, efforts were in place to ensure that staff and agents were trained on AML/CFT during the year. The Company had also introduced several measures leveraging on IT as a tool to facilitate the detection of suspicious transactions.

The Company has in place an AML/CFT Framework in accordance with the relevant guidelines from BNM to prevent the Company from being used as a channel to launder funds in the financial system.

(iv) The Credit Control Committee reviews credit risk, recoverability of trade receivables and recovery and reconciliation of accounts with third parties. The committee also considers and implements appropriate measures to improve existing credit control procedures and practices.

The Company operates in a business environment that is subject to regulatory purview and operational compliance requirement and reporting. The Company Secretary and senior management kept the Board apprised of new laws and guidelines and changes thereof as well as new accounting and insurance standards to be adopted by the Company. To address compliance risk, the Company has designated a Compliance Unit responsible for placing adequate control measures to provide reasonable assurance that the Company's business is conducted in compliance with the relevant laws, regulations and internal/external guidelines stipulated. The Compliance Unit submits a compliance statement to the Board on a quarterly basis.

CORPORATE GOVERNANCE (CONT'D)

(d) Internal Controls and Operational Risk Management (cont'd)

During the financial year, the Company had in place procedures for assessing as necessary the valuation of the Company's key assets, in accordance with the provisions of FRS 116: Property, Plant and Equipment, FRS 138: Intangible Assets, FRS 140: Investment Property, as well as FRS 136: Impairment of Assets.

The Company has outsourced the internal audit function to the Group Internal Audit Department of the holding company, PacificMas Berhad to provide the Board of Directors with much of the assurance it requires regarding the adequacy and integrity of the systems of internal control. Whenever required, certain audit assignments are also outsourced to international accounting firms. The Group Internal Audit Department reports directly to the AC. The functions and responsibilities of the AC and the internal audit function are in accordance with the Group's Internal Audit Charter and Bank Negara Malaysia's Guidelines JPI/GPI 13: Guidelines on Audit Committee and Internal Audit Departments for Insurance Companies.

The internal audit function adopts a systematic, disciplined risk-based audit methodology and prepares its audit strategy and plan based on the risk profiles of the business and functional departments of the Company. The internal audit activities are guided by a detailed annual Audit Plan. The annual Audit Plan is approved by the AC before the commencement of the following financial year and thereafter updated as and when necessary after prior approval of the AC.

The internal audit function independently reviews the risk exposures and control processes on governance, operations and information systems implemented by the Management. During the financial year, the internal audit function reported 8 times to the AC. The internal audit reports were tabled at the AC meeting, at which the findings were reviewed with the Management. Internal auditors conducted follow-up audits to ensure that recommendations to improve controls were implemented by Management. The AC meets with the external auditors at least twice a year without the Management's presence to discuss any problems, issues and concerns arising from the interim and final audits, and any other relevant matters. These initiatives, together with the Management's adoption of the external auditors' recommendations for improvement on internal controls noted during their audit, provide reasonable assurance that necessary control procedures are in place. The AC submits regular reports of their deliberations to the Board of Directors for review.

(e) Public Accountability And Fair Practices

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company has taken the appropriate steps to ensure that all insurance policies issued or delivered to all policyholders contain the necessary information to alert them of the existence of the Financial Mediation Bureau and BNM's Consumer Services Bureau. The bureaus were set up with the view to provide alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

The BNM Guideline JPI/GPI 28: Unfair Practices in Insurance Business was issued to promote higher standards of transparency, greater market discipline and accountability in the conduct of insurance business for the protection of policyholders. The Company has implemented measures for compliance with JPI/GPI 28 by setting up a Centralised Complaints Unit to provide effective and fair services to the customers.

Effective from 1 January 2006, the Company has also taken the necessary measures to comply with the requirements pursuant to JPI/GPI 16 (Revised): Guidelines on Medical and Health Insurance Business dated 26 August 2005 and JPI/GPI 32: Guidelines on Minimum Disclosure Requirements in the Sale of General Insurance Products dated 15 August 2005.

CORPORATE GOVERNANCE (CONT'D)

(f) Financial Reporting

The Board has overall oversight responsibility for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, the provisions of the Companies Act, 1965 and the Insurance Act and Regulations, 1996.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement, to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Notes 18 and 19 to the financial statements and the financial statements of its related corporations or the fixed salaries and benefits of full-time employees of related corporations) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

	Number of Ordinary Shares of RM1 Each			
	1 January 2006	**Bought**	**Sold**	**31 December 2006**
Holding company – PacificMas Berhad				
Choi Siew Hong				
– direct interest	201,000	–	–	201,000
Tan Sri Dato' Nasrudin bin Bahari				
– indirect interest	1,500	–	1,500	–
Lai Wan				
– direct interest	43,000	–	33,000	10,000
– indirect interest	3,000	–	3,000	–
Ng Hon Soon				
– indirect interest	5,000	–	–	5,000

Other than as disclosed, the directors in office at the end of the financial year did not have any interest in shares in the Company or its related corporations during the financial year.

OTHER STATUTORY INFORMATION

(a) Before the balance sheet and income statement of the Company were made out, the directors took reasonable steps:

(i) 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 had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the allowance for doubtful debts of the Company inadequate to any substantial extent; and

(ii) the values attributed to the current assets in the financial statements of the Company misleading.

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

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

(e) As at the date of this report, there does not exist:

(i) 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

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

(f) In the opinion of the directors:

(i) 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 will or may affect the ability of the Company to meet its obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

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

SIGNIFICANT EVENT

The significant event of the Company is disclosed in Note 28 to the financial statements.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 13 February 2007.

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia

13 February 2007

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, CHOI SIEW HONG and TAN SRI DATO' NASRUDIN BIN BAHARI, being two of the directors of THE PACIFIC INSURANCE BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 31 to 69 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of the financial position of the Company as at 31 December 2006 and of the results and the cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 13 February 2007.

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia

13 February 2007

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

I, TAN SIEW HOCK, being the Officer primarily responsible for the financial management of THE PACIFIC INSURANCE BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 31 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.

Subscribed and solemnly declared by)
the abovenamed Tan Siew Hock)
at Kuala Lumpur in Wilayah Persekutuan)
on 13 February 2007)

TAN SIEW HOCK

Before me,

CHOY PAK SUN

Commissioner for Oaths

Report of the Auditors to the Member of The Pacific Insurance Berhad
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 31 to 69. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

(a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:

  (i) the financial position of the Company as at 31 December 2006 and of the results and the cash flows for the year then ended; and

  (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young

ERNST & YOUNG
AF: 0039
Chartered Accountants

K. Pushpanathan

PUSHPANATHAN A/L S.A. KANAGARAYAR
No. 1056/03/07(J/PH)
Partner

Kuala Lumpur, Malaysia
13 February 2007

BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 RM	2005 RM
ASSETS			
Property and equipment	3	2,085,314	2,638,948
Intangible assets	4	67,417	74,748
Deferred tax assets	5	18,760	36,636
Investment properties	6	840,157	864,799
Investments	7	225,123,645	219,069,346
Loans	8	3,304,968	3,761,838
Receivables	9	30,727,371	29,924,513
Cash and bank balances		2,661,192	4,166,808
TOTAL ASSETS		264,828,824	260,537,636
EQUITY AND LIABILITIES			
Share capital	14	100,000,000	100,000,000
Retained profits		34,161,227	33,916,790
Total equity		134,161,227	133,916,790
Liabilities			
Provision for outstanding claims	10	74,479,170	74,675,771
Payables	11	13,483,294	13,835,754
Staff retirement gratuities	12	–	234,037
Unearned premium reserves	13	42,705,133	37,875,284
Total liabilities		130,667,597	126,620,846
TOTAL EQUITY AND LIABILITIES		264,828,824	260,537,636

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

Statement Of Changes In Equity
for the year ended 31 December 2006

	Note	Share capital RM	Distributable retained profits RM	Total RM
At 1 January 2005				
As previously stated		100,000,000	33,284,472	133,284,472
Effect of adopting FRS 140				
– Prior year adjustment (Note 2.3 (d)(i))		–	(35,259)	(35,259)
At 1 January 2005 (restated)		100,000,000	33,249,213	133,249,213
Profit for the year (restated)		–	9,667,577	9,667,577
Total recognised income for the year		–	9,667,577	9,667,577
Dividends	15	–	(9,000,000)	(9,000,000)
At 31 December 2005 (restated)		100,000,000	33,916,790	133,916,790
At 1 January 2006				
As previously stated		100,000,000	33,974,741	133,974,741
Effect of adopting FRS 140				
– Prior year adjustment (Note 2.3 (d)(i))		–	(57,951)	(57,951)
At 1 January 2006 (restated)		100,000,000	33,916,790	133,916,790
Profit for the year		–	11,044,437	11,044,437
Total recognised income for the year		–	11,044,437	11,044,437
Dividends	15	–	(10,800,000)	(10,800,000)
At 31 December 2006		100,000,000	34,161,227	134,161,227

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 RM	2005 RM
Operating revenue	16	135,478,254	119,761,626
Shareholder's fund:			
Investment income	16a	533,408	732,741
Other operating income	17	115,265	103,353
Management expenses	18	(90,136)	(78,706)
Surplus transferred from General Insurance Revenue Account		13,729,388	12,636,925
Profit before taxation		14,287,925	13,394,313
Taxation	21	(3,243,488)	(3,726,736)
Net profit for the year		11,044,437	9,667,577
Earnings per share (sen)	23		
Basic		11.0	9.7

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

General Insurance Revenue Account
for the year ended 31 December 2006

	Note	Fire RM	Motor RM	Marine, Aviation and Transit RM	Miscellaneous ("Misc.") Medical & Health RM	Miscellaneous ("Misc.") Others RM	Miscellaneous ("Misc.") Total Misc. RM	Total RM
2006								
Operating revenue	16							134,944,846
Gross premiums		21,214,713	34,770,061	3,354,522	39,416,469	28,034,216	67,450,685	126,789,981
Reinsurance		(9,579,780)	(3,136,709)	(2,426,746)	(2,490,308)	(9,352,935)	(11,843,243)	(26,986,478)
Net premium		11,634,933	31,633,352	927,776	36,926,161	18,681,281	55,607,442	99,803,503
(Increase)/decrease in unearned premium reserves	13	(614,360)	(538,921)	175,196	(2,991,476)	(860,288)	(3,851,764)	(4,829,849)
Earned premium		11,020,573	31,094,431	1,102,972	33,934,685	17,820,993	51,755,678	94,973,654
Net claims incurred	22	(5,545,953)	(20,731,478)	452,760	(23,805,879)	(6,332,707)	(30,138,586)	(55,963,257)
Net commission		(1,395,616)	(3,114,074)	158,412	(4,439,759)	(3,351,503)	(7,791,262)	(12,142,540)
Underwriting surplus before management expenses		4,079,004	7,248,879	1,714,144	5,689,047	8,136,783	13,825,830	26,867,857
Management expenses	18							(24,839,387)
Underwriting surplus								2,028,470
Investment income	16a							8,154,865
Other operating income/(expenses)	17							3,546,053
Profit from operations								13,729,388
Finance costs	20							–
Transfer to Income Statement								13,729,388
2005								
Operating revenue	16							119,028,885
Gross premiums		19,531,926	31,143,283	4,144,610	32,423,054	24,211,304	56,634,358	111,454,177
Reinsurance		(9,053,117)	(3,135,504)	(2,938,518)	(1,972,267)	(8,863,855)	(10,836,122)	(25,963,261)
Net premium		10,478,809	28,007,779	1,206,092	30,450,787	15,347,449	45,798,236	85,490,916
(Increase)/decrease in unearned premium reserves	13	531,852	(2,607,118)	(205,542)	(322,084)	(937,605)	(1,259,689)	(3,540,497)
Earned premium		11,010,661	25,400,661	1,000,550	30,128,703	14,409,844	44,538,547	81,950,419
Net claims incurred	22	(5,489,077)	(11,078,762)	(466,730)	(17,577,351)	(6,383,844)	(23,961,195)	(40,995,764)
Net commission		(1,327,629)	(2,775,894)	(17,825)	(3,546,500)	(2,986,996)	(6,533,496)	(10,654,844)
Underwriting surplus before management expenses		4,193,955	11,546,005	515,995	9,004,852	5,039,004	14,043,856	30,299,811
Management expenses	18							(22,513,389)
Underwriting surplus								7,786,422
Investment income	16a							7,574,708
Other operating Income/(expenses)	17							(2,723,889)
Profit from operations								12,637,241
Finance costs	20							(316)
Transfer to Income Statement								12,636,925

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	14,287,925	13,394,313
Adjustment for:		
Depreciation of property and equipment	1,117,503	1,138,740
Gain on disposal of property and equipment	(42,327)	(33,417)
Write off of property and equipment	5,688	42,254
(Write-back)/provision for diminution in value of investments	(4,264,863)	3,232,740
Depreciation of investment properties	24,642	24,392
Amortisation of premiums, net of accretion of discounts	378,779	225,838
Amortisation of intangible assets	20,881	19,962
Net gain on disposal of investments	988,879	(378,133)
Investment income	(9,067,052)	(8,533,287)
Other interest income	(118,765)	(106,853)
Interest expense	319	2,979
Bad debts recovered, net of write off	(955,063)	(1,196,190)
Provision for staff retirement gratuities	10,138	26,926
Short-term accumulating compensated absences	26,152	(21,314)
Net increase in unearned premium reserves	4,829,849	3,540,497
Profit from operations before changes in operating assets and liabilities	7,242,685	11,379,447
Purchase of investments	(78,423,220)	(67,212,401)
Proceeds from disposal/maturity of investments	98,847,115	75,095,156
Decrease in loans	456,870	254,668
Decrease in receivables	526,028	528,584
Increase in fixed and call deposits	(23,580,986)	(3,326,017)
Decrease in outstanding claims	(196,601)	(13,849,227)
Decrease in payables	(378,612)	(951,633)
Cash generated from operations	4,493,279	1,918,577
Investment income received	8,999,704	8,567,773
Other interest received	118,765	106,853
Interest paid	(319)	(2,663)
Income tax paid	(3,740,000)	(4,577,345)
Income tax refunds received	207,910	–
Staff retirement gratuities paid	(244,175)	(17,524)
Net cash generated from operating activities	9,835,164	5,995,671

	2006 RM	2005 RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(604,620)	(950,091)
Purchase of intangible assets	(13,550)	(37,146)
Proceeds from disposal of property and equipment	77,390	44,212
Net cash used in investing activities	(540,780)	(943,025)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(10,800,000)	(9,000,000)
Finance costs	–	(316)
Net cash used in financing activities	(10,800,000)	(9,000,316)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,505,616)	(3,947,670)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	4,166,808	8,114,478
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	2,661,192	4,166,808
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	2,661,192	4,166,808

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006

1. CORPORATE INFORMATION

The principal activity of the Company consists of the underwriting of general insurance business. There has been no significant change in the nature of the principal activity during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 6, Menara Prudential, No. 10, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The holding and ultimate holding company of the Company is PacificMas Berhad, a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 13 February 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965, the Insurance Act, 1996, Guidelines/Circulars issued by Bank Negara Malaysia ("BNM") and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities. At the beginning of the current financial year, the Company had adopted new and revised Financial Reporting Standards ("FRS") which are mandatory for financial periods on or after 1 January 2006 as described in Note 2.3.

Assets and liabilities in the balance sheet relate to both the General Insurance Fund and the Shareholder’s Fund.

The financial statements are presented in Ringgit Malaysia ("RM").

2.2 Summary of Significant Accounting Policies

(a) Property and Equipment and Depreciation

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

Subsequent to recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Furniture and fittings	10%
Office equipment	10%
Motor vehicles	20%
Computers	20%
Office renovations	50%

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(a) Property and Equipment and Depreciation (cont'd)

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit and loss.

(b) Investment Properties

Properties that are held for long-term rental yields or for capital appreciation or both are classified as investment property.

Investment properties are initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2 (g).

Depreciation is provided for on a straight-line basis over the estimated useful life of 50 years for the investment properties. The residual values and useful lives of the investment properties are reviewed, and adjusted if appropriate, at each balance sheet date.

Any gains or losses on the disposal of investment properties are recognised in the profit or loss/revenue account in the year of disposal.

(c) Underwriting Results

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

(i) Premium income

Premium income net of all reinsurances is recognised based on booking date and not on risk assumption date as recommended in FRS 202: General Insurance Business. However, an adjustment is made on a monthly basis to account for premiums by risk assumption dates.

Inward treaty reinsurance premiums are recognised on the basis of available periodic advices received from ceding insurers.

(ii) Unearned premium reserves

The short term Unearned Premium Reserves (“UPR”) represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial year.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(c) Underwriting Results (cont'd)

(ii) Unearned premium reserves (cont'd)

In determining the UPR at balance sheet date, the method that most accurately reflects the actual liability is used, as follows:

– 25% method for marine, aviation cargo and transit business

– 1/24th method for all other classes of general business in respect of Malaysian policies, with the following deduction rates, or actual commission incurred, whichever is lower

– Motor and bond	10%
– Fire,engineering, aviation and marine hull	15%
– Medical	10 –15%
– Other classes	20%

– 1/8th method for all other classes of overseas inward treaty business, with a deduction of 20% for commission

– non-annual policies are time-apportioned over the period of the risks

The long term UPR represent the portion of the net premiums of long term policies underwritten, that relate to the unexpired periods of the policies at the end of the financial period. The premium income is recognised on a time apportionment basis over the duration of the policies.

(iii) Provision for claims

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the balance sheet date.

Provision is also made for the probable cost of claims, together with related expenses incurred but not reported ("IBNR") at balance sheet date, based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on, among others, actual claims development pattern.

(iv) Acquisition costs

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

(v) Allowance for bad and doubtful debts

Full allowance is made in the financial statements for outstanding premiums including agents, brokers, and reinsurers balances in arrears for more than thirty days for motor class and six months for other classes of insurance, as stipulated in the BNM guidelines.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(d) Other Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(ii) Gross dividend income

Gross dividend income is recognised on a declared basis when the shareholder's right to receive payment is established.

(iii) Rental income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(e) Foreign Currencies

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange approximating those ruling at the transaction dates. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. All exchange rate differences are taken to the profit or loss/revenue account.

(f) Income Tax

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

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted at the balance sheet date. Deferred tax is recognised as an income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity,

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(g) Impairment of Non-financial Assets

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

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

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

An impairment loss is recognised in profit or loss/revenue account in the period in which it arises.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the assets in prior years. A reversal of impairment loss for an asset is recognised in profit or loss/revenue account.

(h) Employee Benefits

(i) Short-term benefits

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

(ii) Defined contribution plan

As required by law, the Company makes contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss/revenue account as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(h) Employee Benefits (cont'd)

(iii) Staff retirement gratuities

The Company has been operating an unfunded defined contribution staff retirement gratuities scheme for non-management employees. Provision for staff retirement gratuities is charged to the profit or loss/revenue account in the year to which they relate.

During the current financial year, the staff retirement gratuities scheme for the non-management emloyees was abolished and the Company's total provision for the non-management employees' retirement gratuity under the scheme was remitted to the EPF for the accounts of the individual staff members.

(i) Financial Instruments

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instruments.

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

Disclosure information for financial assets and liabilities that relate to rights and obligations arising under insurance contracts are excluded from the scope of FRS 132: Financial Instruments – Disclosure and Presentation.

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and bank balances but do not include fixed and call deposits.

The cash flow statement has been prepared using the indirect method.

(ii) Malaysian Government Securities and other approved investments

Malaysian Government Securities and other approved investments as specified by BNM are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on an effective yield basis from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are charged or credited to the profit or loss/revenue account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(i) Financial Instruments (cont'd)

(iii) Quoted investments

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments. Cost is determined on the weighted average basis while market value is determined based on quoted market values. On disposal of quoted investments, the difference between net disposal proceeds and the carrying amount is recognised in the profit or loss/revenue account. If diminution in value of a particular investment is regarded as other than temporary, a write down is made against the value of that investment.

(iv) Government guaranteed bonds and unquoted corporate bonds

Government guaranteed bonds and unquoted corporate bonds which are secured or which carry a minimum rating of “BBB” (long-term) or “P3” (short-term) or their equivalents by a rating agency established in Malaysia are valued at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis from the dates of purchase to maturity dates. Any corporate bond with a lower rating is valued at the lower of cost or net realisable value.

(v) Receivables

Receivables are carried at anticipated realisable values.

Known bad debts are written off and full allowances are made for outstanding premiums including agents, brokers and reinsurers balances in arrears for more than thirty days for motor class and six months for other classes of insurance, from the date on which they become receivable and for all debts which are considered doubtful, as stipulated in the BNM guidelines.

(vi) Payables

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

(vii) Equity instruments

Ordinary shares are classified as equity.

Dividends on ordinary shares are recognised and reflected in the statement of changes in equity in the period in which they are declared.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(j) Intangible Assets

Intangible assets of the Company consist of computer software.

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

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

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs

On 1 January 2006, the Company adopted the following FRSs which are mandatory for financial periods beginning on or after 1 January 2006:

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

The adoption of revised FRS 2, 3, 5, 101, 102, 108, 110, 116, 121, 127, 128, 131, 132, 133 and 136 does not have any impact or have resulted in significant changes in accounting policies of the Company. FRS 2, 3, 102, 127, 128 and 131 are not relevant to the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (cont'd)

The Company has not adopted the deferred FRS 139 – Financial Instruments : Recognition and Measurement as well as the following FRSs and amendment that are mandatory for financial periods beginning on or after 1 January 2007:

(i) FRS 6 Exploration for and Evaluation of Mineral Resources

(ii) FRS 117 Leases

(iii) FRS 124 Related Party Disclosures

(iv) Amendment to $FRS119_{2004}$ Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.

The effective date of FRS 139 has been deferred to a date to be announced by MASB. As permitted by the transitional provisions of the FRS 117 and FRS 124, the possible impact of these 2 FRSs is not required to be disclosed in the financial statements for 2006. FRS 6 and the amendment to FRS 119_{2004} are not relevant to the Company.

The principal effects of the changes in accounting policies resulting from the adoption of the other new/revised FRSs are disclosed below:

(a) FRS 140: Investment Property

Prior to 1 January 2006, investment properties were not depreciated and were stated at cost less any accumulated impairment losses. The Company has adopted the cost model of FRS 140 for investment properties which requires investment properties to be stated at cost less accumulated depreciation and any accumulated impairment losses. Hence, the change in the Company's accounting policy on investment properties requires depreciation to be provided retrospectively, and as disclosed in Note 2.3 (d), certain comparatives have been restated. The effects on the Company's Balance Sheet as at 31 December 2006 and Income Statement for the year ended 31 December 2006 are set out in Note 2.3 (c).

(b) FRS 138: Intangible Assets

Previously, computer software was included under property and equipment. FRS 138: Intangible Assets requires reclassification of computer software, which is not an integral part of a related hardware, as an intangible asset and is amortised over its useful life. A computer software is an integral part of a related hardware if the hardware requires this specific software to operate.

In accordance with FRS 138, computer software which is not an integral part of the computer hardware has been reclassified to intangible assets retrospectively. The effect of FRS 138 on the Balance Sheets of the Company as at 31 December 2005 are shown in Note 2.3 (d).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (cont'd)

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

(i) Effects on Balance Sheet as at 31 December 2006

	Increase/(Decrease)		
	FRS 140 (Note 2.3(a)) RM	FRS 138 (Note 2.3(b)) RM	Total RM
Assets			
Property and equipment	–	(67,417)	(67,417)
Investment properties	(82,593)	–	(82,593)
Intangible assets	–	67,417	67,417
Equity and Liabilities			
Retained profits	(82,593)	–	(82,593)

(ii) Effects on Income Statement for the year ended 31 December 2006

	Increase/(Decrease) FRS 140 (Note 2.3(a)) RM	Total RM
Other operating expenses	24,642	24,642
Profit before taxation	(24,642)	(24,642)
Profit for the year	(24,642)	(24,642)

(d) Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRSs:

(i) Effects on comparative Balance Sheet as at 31 December 2005

		Increase/(Decrease)		
	Previously Stated RM	FRS 140 (Note 2.3(a)) RM	FRS 138 (Note 2.3(b)) RM	Restated RM
Assets				
Property and equipment	2,713,696	–	(74,748)	2,638,948
Investment properties	922,750	(57,951)	–	864,799
Intangible assets	–	–	74,748	74,748
Equity and Liabilities				
Retained profits	33,974,741	(57,951)	–	33,916,790

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (cont'd)

(d) Restatement of comparatives (cont'd)

(ii) Effects on comparative income statement and revenue account for the year ended 31 December 2005

	Previously Stated RM	Prior Year Adjustment RM	Restated RM
Other operating expenses	2,597,844	22,692	2,620,536
Profit before taxation	13,417,005	(22,692)	13,394,313
Profit for the year	9,690,269	(22,692)	9,667,577

(iii) Effects on comparative cash flow statement for the year ended 31 December 2005

	Previously Stated RM	Prior Year Adjustment RM	Restated RM
Impairment loss of investment property	(1,700)	1,700	–
Depreciation of investment properties	–	(24,392)	(24,392)

2.4 Significant Accounting Estimates and Judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Significant Accounting Estimates and Judgements (cont'd)

Critical Accounting Estimates and Assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a sgnificant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) FRS 116: Property, Plant and Equipment

The revised FRS 116 : Property, Plant and Equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. No depreciation charge was provided for certain motor vehicles of the Company for the financial year 2006 as the carrying amount is lower than the estimated recoverable amount. The revision was accounted for prospectively as a change in accounting estimate and as a result the depreciation charge of the Company for the current financial year has been reduced by RM44,568.

(b) Uncertainty in accounting estimates for general insurance business

The principal uncertainty in the Company's general insurance business arises from the technical provisions which include the provisions of premiums and claims liabilities. The premium liabilities comprise unearned premium reserves while claim liabilities comprise provision for outstanding claims.

Generally, claims liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premiums and claims liabilities will not exactly develop as projected and may vary from the Company's projections.

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

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

3. PROPERTY AND EQUIPMENT

	Office renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
At 31 December 2006				
Cost				
At 1 January 2006 (restated)	1,759,084	283,686	7,238,686	9,281,456
Additions	67,306	219,650	317,664	604,620
Disposals	–	(102,668)	(430,583)	(533,251)
Write-offs	(53,100)	–	(125,971)	(179,071)
Reclassification	(38,550)	–	38,550	–
At 31 December 2006	1,734,740	400,668	7,038,346	9,173,754
Accumulated Depreciation				
At 1 January 2006 (restated)	1,527,924	187,720	4,926,864	6,642,508
Charge for the year	134,783	10,837	971,883	1,117,503
Disposals	–	(78,541)	(419,647)	(498,188)
Write-offs	(53,100)	–	(120,283)	(173,383)
At 31 December 2006	1,609,607	120,016	5,358,817	7,088,440
Net Carrying Amount				
At 31 December 2006	125,133	280,652	1,679,529	2,085,314
At 31 December 2005				
Cost				
At 1 January 2005 (restated)	1,517,403	349,221	8,545,307	10,411,931
Additions	261,887	–	688,204	950,091
Disposals	(20,206)	(61,217)	(250,156)	(331,579)
Write-offs	–	(4,318)	(1,744,669)	(1,748,987)
At 31 December 2005	1,759,084	283,686	7,238,686	9,281,456
Accumulated Depreciation				
At 1 January 2005 (restated)	1,445,071	204,068	5,882,146	7,531,285
Charge for the year	103,059	49,187	986,494	1,138,740
Disposals	(20,206)	(65,535)	(235,043)	(320,784)
Write-offs	–	–	(1,706,733)	(1,706,733)
At 31 December 2005	1,527,924	187,720	4,926,864	6,642,508
Net Carrying Amount				
At 31 December 2005	231,160	95,966	2,311,822	2,638,948

3. PROPERTY AND EQUIPMENT (CONT'D)

Included in property and equipment of the Company are the costs of fully depreciated assets which are still in use as follows:

	2006 RM	2005 RM
Office renovations	1,444,097	1,406,486
Furniture, fittings, office equipment and computers	2,887,663	2,439,694
	4,331,760	3,846,180

4. INTANGIBLE ASSETS

	Computer software	
	2006 RM	2005 RM
Cost		
At 1 January	147,172	110,026
Additions	13,550	37,146
Write-off	(2,430)	–
At 31 December	158,292	147,172

	Computer software	
	2006 RM	2005 RM
Accumulated Amortisation and Impairment		
At 1 January	72,424	52,462
Charge for the year	20,881	19,962
Write-off	(2,430)	–
At 31 December	90,875	72,424
Net Carrying Amount		
At 31 December	67,417	74,748

5. DEFERRED TAX ASSETS

	2006 RM	2005 RM
At 1 January	36,636	191,817
Recognised in the income statement (Note 21)	(17,876)	(155,181)
At 31 December	18,760	36,636

5. DEFERRED TAX ASSETS (CONT'D)

The components and movement of deferred tax liabilities and deferred tax assets during the financial year are as follows:

2006

	Accelerated capital allowances RM	Total RM
Deferred Tax Liabilities		
At 1 January 2006	(544,431)	(544,431)
Recognised in the income statement	218,869	218,869
At 31 December 2006	(325,562)	(325,562)

	Receivables RM	Staff retirement gratuities RM	Others RM	Total RM
Deferred Tax Assets				
At 1 January 2006	513,317	65,530	2,220	581,067
Recognised in the income statement	(178,196)	(65,530)	6,981	(236,745)
At 31 December 2006	335,121	–	9,201	344,322

2005

	Accelerated capital allowances RM	Total RM
Deferred Tax Liabilities		
At 1 January 2005	(479,218)	(479,218)
Recognised in the income statement	(65,213)	(65,213)
At 31 December 2005	(544,431)	(544,431)

5. DEFERRED TAX ASSETS (CONT'D)

2005 (cont'd)

	Receivables RM	Staff retirement gratuities RM	Others RM	Total RM
Deferred Tax Assets				
At 1 January 2005	599,950	62,898	8,187	671,035
Recognised in the income statement	(86,633)	2,632	(5,967)	(89,968)
At 31 December 2005	513,317	65,530	2,220	581,067

6. INVESTMENT PROPERTIES

	2006 RM	2005 RM
Cost		
1 January/31 December	1,006,700	1,006,700
Accumulated Depreciation		
1 January (restated)	141,901	117,509
Charged for the year	24,642	24,392
31 December	166,543	141,901
Net Carrying Amount	840,157	864,799
Fair Value	1,015,000	1,015,000

7. INVESTMENTS

	2006 Carrying value RM	2006 Market/ indicative value* RM	2005 Carrying value RM	2005 Market/ indicative value* RM
Malaysian Government Securities ("MGS")	14,577,760		18,142,420	
Amortisation of premiums net of accretion of discounts	(1,322,885)		(887,024)	
	13,254,875	13,351,850	17,255,396	17,590,163
Government Investment Issue ("GII")	10,127,000		–	
Amortisation of premiums net of accretion of discounts	(1,972)		–	
	10,125,028	10,225,000	–	–
Quoted in Malaysia:				
Shares, warrants and other securities (N1)	786,105		27,895,388	
Provision for diminution in value	(74,955)		(3,842,252)	
	711,150	711,150	24,053,136	24,053,136
Unit trusts (N2)	9,440,694		5,519,917	
Provision for diminution in value	–		(497,566)	
	9,440,694	9,502,614	5,022,351	5,022,351
Unquoted:				
Cagamas bonds	5,014,500	5,000,500	10,054,500	10,019,000
Corporate bonds (N3)	32,364,391	33,432,340	32,599,415	32,907,000
	37,378,891		42,653,915	
Accretion of discounts net of amortisation of premiums	692,543		145,070	
	38,071,434		42,798,985	

7. INVESTMENTS (CONT'D)

Fixed and call deposits with licensed financial institutions:

	2006		2005	
	Carrying value RM	Market/ indicative value* RM	Carrying value RM	Market/ indicative value* RM
Commercial banks (N4)	114,941,506		94,013,007	
Finance companies	–		10,080,205	
Other financial institutions (N5)	38,578,958		25,846,266	
	153,520,464		129,939,478	
Total investments	225,123,645		219,069,346	

* indicative values, where applicable, obtained from the secondary market.

N1 includes an amount of RM786,105 (2005: RM23,944,505) managed by a fellow subsidiary, PacificMas Asset Management Sdn. Bhd.

N2 includes an amount of RM3,797,498 (2005: RM3,779,532) managed by a fellow subsidiary, Pacific Mutual Fund Bhd.

N3 all unquoted corporate bonds carry a minimum rating of "BBB" (long-term) or "P3" (short-term) or their equivalents by a rating agency established in Malaysia.

N4 includes an amount of RM39,720,495 (2005: RM19,876,600) placed with OCBC Bank (Malaysia) Berhad, a subsidiary of a substantial shareholder of the holding company.

N5 includes an amount of RM16,049,004 (2005: RM6,728,380) managed by a fellow subsidiary, PacificMas Asset Management Sdn. Bhd.

7. INVESTMENTS (CONT'D)

The maturity structure of investments, at cost (excluding equity investments, warrants and unit trusts) is as follows:

	Within 1 year RM	More than 1 to < 3 years RM	3 to 5 years RM	More than 5 years RM	Total RM
2006					
MGS	12,193,760	2,384,000	–	–	14,577,760
GII	–	4,969,500	5,157,500	–	10,127,000
Unquoted Cagamas bonds	5,014,500	–	–	–	5,014,500
Unquoted corporate bonds	–	13,564,861	14,938,950	3,860,580	32,364,391
Fixed and call deposits	141,820,464	11,700,000	–	–	153,520,464
	159,028,724	32,618,361	20,096,450	3,860,580	215,604,115
2005					
MGS	3,564,660	14,577,760	–	–	18,142,420
Unquoted Cagamas bonds	5,040,000	5,014,500	–	–	10,054,500
Unquoted corporate bonds	9,334,700	8,257,235	6,307,480	8,700,000	32,599,415
Fixed and call deposits	129,939,478	–	–	–	129,939,478
	147,878,838	27,849,495	6,307,480	8,700,000	190,735,813

The weighted average rate of return and the average remaining maturity of deposits as at the balance sheet date were as follows:

	Weighted average rate of return (% per annum)		Average remaining maturity (Days)	
	2006	2005	2006	2005
Commercial banks	3.77	3.01	240	172
Finance companies	–	3.10	–	109
Other financial institutions	3.52	3.04	48	72

Other financial institutions are discount houses and development financial institutions.

8. LOANS

	2006 RM	2005 RM
Staff loans:		
Secured	3,226,340	3,728,534
Unsecured	78,628	33,304
	3,304,968	3,761,838
Receivable after 12 months	2,716,849	3,194,727

The weighted average effective interest rate for staff loans as at 31 December 2006 was 2.80% (2005: 3.20%) per annum on the basis of monthly rest.

9. RECEIVABLES

	2006 RM	2005 RM
Trade receivables:		
Due premiums including agents/brokers and co-insurers balances	20,654,768	19,979,966
Allowance for doubtful debts	(3,050,916)	(3,946,260)
	17,603,852	16,033,706
Amount due from reinsurers/ceding companies	2,730,063	2,893,213
Allowance for doubtful debts	(652,072)	(917,241)
	2,077,991	1,975,972
Total trade receivables	19,681,843	18,009,678
Other receivables:		
Other receivables, deposits and prepayments	7,785,736	8,934,821
Tax recoverable	1,386,808	910,656
Income due and accrued	1,872,984	2,069,358
Total other receivables	11,045,528	11,914,835
Total receivables	30,727,371	29,924,513

10. PROVISION FOR OUTSTANDING CLAIMS

	2006 RM	2005 RM
Provision for outstanding claims	96,707,082	103,061,600
Recoverable from reinsurers	(22,227,912)	(28,385,829)
Net outstanding claims	74,479,170	74,675,771

11. PAYABLES

	2006 RM	2005 RM
Trade payables:		
Amount due to reinsurers/ceding companies	3,906,257	3,542,321
Amount due to brokers, co-insurers and insureds	2,916,502	4,071,504
	6,822,759	7,613,825
Other payables:		
Other payables and accrued liabilities	6,660,535	6,221,929
Total payables	13,483,294	13,835,754

12. STAFF RETIREMENT GRATUITIES

	2006 RM	2005 RM
At 1 January	234,037	224,635
Provision for the year	10,138	26,926
	244,175	251,561
Transfer to EPF/benefits paid during the year	(244,175)	(17,524)
At 31 December	–	234,037

13. UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, Aviation and Transit RM	Misc. Medical & Health RM	Misc. Others RM	Total Misc. RM	Total RM
2006							
At 1 January	4,309,798	13,597,846	422,718	12,991,522	6,553,400	19,544,922	37,875,284
(Decrease)/ increase	614,360	538,921	(175,196)	2,991,476	860,288	3,851,764	4,829,849
At 31 December	4,924,158	14,136,767	247,522	15,982,998	7,413,688	23,396,686	42,705,133
2005							
At 1 January	4,841,650	10,990,728	217,176	12,669,438	5,615,795	18,285,233	34,334,787
(Decrease)/ increase	(531,852)	2,607,118	205,542	322,084	937,605	1,259,689	3,540,497
At 31 December	4,309,798	13,597,846	422,718	12,991,522	6,553,400	19,544,922	37,875,284

14. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2006	2005	2006 RM	2005 RM
Authorised:				
At 1 January/31 December	500,000,000	500,000,000	500,000,000	500,000,000
Issued and paid up:				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000

15. DIVIDENDS

	Dividends in respect of Year		Dividends Recognised in Year	
	2006 RM	2005 RM	2006 RM	2005 RM
Recognised during the year:				
Interim dividends of 15.0 sen per share less 28% taxation, on 100,000,000 ordinary shares (2005: 12.5 sen per share less 28% taxation)	10,800,000	9,000,000	10,800,000	9,000,000

The directors do not propose any final dividend for the financial year ended 31 December 2006.

16. OPERATING REVENUE

	Shareholder's fund RM	General business RM	Total RM
2006			
Gross premiums	–	126,789,981	126,789,981
Investment income (Note 16a)	533,408	8,154,865	8,688,273
	533,408	134,944,846	135,478,254
2005			
Gross premiums	–	111,454,177	111,454,177
Investment income (Note 16a)	732,741	7,574,708	8,307,449
	732,741	119,028,885	119,761,626

16a. INVESTMENT INCOME

	Shareholder's fund		General business	
	2006 RM	2005 RM	2006 RM	2005 RM
Interest income from:				
MGS	–	–	1,379,675	1,320,970
Corporate bonds	–	–	1,598,790	1,719,051
Cagamas bonds	–	–	295,157	363,250
Fixed and call deposits	509,408	708,741	4,168,011	3,161,314
Gross dividends from:				
Shares quoted in Malaysia	–	–	702,933	831,390
Unit trusts	–	–	338,078	353,171
Rental of properties	24,000	24,000	51,000	51,400
Amortisation of premiums, net of accretion of discounts	–	–	(378,779)	(225,838)
	533,408	732,741	8,154,865	7,574,708

17. OTHER OPERATING INCOME/(EXPENSES)

	Shareholder's fund		General business	
	2006 RM	2005 RM	2006 RM	2005 RM
Other operating income:				
Gain on disposal of investments	–	–	4,777,993	3,095,910
Gain on disposal of property and equipment	–	–	42,327	33,417
Write back of provision for diminution in value of investments	–	–	4,264,863	–
Interest income from staff loans	118,765	106,853	–	–
Sundry income	–	–	296,201	166,413
	118,765	106,853	9,381,384	3,295,740
Other operating expenses:				
Loss on disposal of investments	–	–	(5,766,872)	(2,717,777)
Provision for diminution in value of investments	–	–	–	(3,232,740)
Depreciation of investment properties	(3,500)	(3,500)	(21,142)	(20,892)
Write off of property and equipment	–	–	(5,688)	(42,254)
Interest expenses	–	–	(319)	(2,663)
Sundry expenses	–	–	(41,310)	(3,303)
	(3,500)	(3,500)	(5,835,331)	(6,019,629)
Net operating income/(expenses)	115,265	103,353	3,546,053	(2,723,889)

18. MANAGEMENT EXPENSES

	Shareholder's fund		General business	
	2006 RM	2005 RM	2006 RM	2005 RM
Staff costs:				
Salaries, bonus, allowances and other related costs	–	–	13,265,577	11,645,594
EPF	–	–	1,826,457	1,540,443
Provision for staff retirement gratuities	–	–	10,138	26,926
Short-term accumulating compensated absences	–	–	26,152	(21,314)
	–	–	15,128,324	13,191,649
Directors' fees (Note 19)	–	–	135,500	137,500
Auditors' remuneration	–	–	74,000	66,000
Bad debts recovered net of write-off	–	–	(955,063)	(1,196,190)
Office rental	–	–	1,677,095	1,500,747
Office equipment rental	–	–	188,420	94,409
Depreciation of property and equipment	–	–	1,117,503	1,138,740
Amortisation of intangible assets	–	–	20,881	19,962
Other expenses	90,136	78,706	7,452,727	7,560,572
	90,136	78,706	24,839,387	22,513,389

19. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

	2006 RM	2005 RM
Non-executive directors:		
Directors' fees	135,500	137,500
Total directors' fees	135,500	137,500

The remuneration attributable to the Chief Executive Officer of the Company included in staff costs in Note 18 amounted to RM470,960 (2005: RM445,440). The estimated monetary value of benefits-in-kind not included therein was RM10,912 (2005: RM10,746).

The number of directors whose remuneration during the year falls within the following band is as follows:

	Number of directors	
	2006	2005
Non-executive directors:		
Below RM50,000	5	5

20. FINANCE COSTS

Finance costs relate to finance lease interest.

21. TAXATION

	2006 RM	2005 RM
Income tax:		
Malaysian income tax	2,582,662	3,431,353
Foreign tax on foreign dividend received	2,328	–
Under provision in respect of prior years	640,622	140,202
	3,225,612	3,571,555
Deferred tax relating to origination and reversal of temporary differences (Note 5)	17,876	155,181
Tax expense for the year	3,243,488	3,726,736

The current statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year assessment 2008. The calculation of deferred tax as at 31 December 2006 has reflected this change.

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

	2006 RM	2005 RM
Profit before taxation	14,287,925	13,394,313
Taxation at Malaysian statutory income tax rate of 28% (2005: 28%)	4,000,619	3,750,408
Effect of different tax rate in a foreign country	(931)	–
Expenses not deductible for tax purposes	89,589	78,164
Income not subject to tax	(1,434,853)	(381,313)
Under provision of income tax in prior years	640,622	140,202
(Over)/underprovision of deferred tax in prior years	(50,865)	139,275
Effect of changes in tax rates on opening balance and current year deferred tax	(693)	–
Tax expense for the year	3,243,488	3,726,736

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and exempt income to frank the payment of dividends out of its entire retained profits as at 31 December 2006.

As at 31 December 2006, the Company has tax exempt income available for distribution of approximately RM1,715,000 (2005: RM1,577,000).

22. NET CLAIMS INCURRED

				Misc.			
	Fire RM	Motor RM	Marine, Aviation and Transit RM	Medical & Health RM	Others RM	Total Misc. RM	Total RM
2006							
Gross claims paid less salvage	10,088,355	21,630,196	764,848	24,145,931	11,053,548	35,199,479	67,682,878
Reinsurance recoveries	(4,861,176)	(1,298,556)	(802,701)	(1,038,849)	(3,521,738)	(4,560,587)	(11,523,020)
Net claims paid	5,227,179	20,331,640	(37,853)	23,107,082	7,531,810	30,638,892	56,159,858
Net outstanding claims:							
At 31 December	6,374,092	45,723,487	1,875,912	5,445,156	15,060,523	20,505,679	74,479,170
At 1 January	(6,055,318)	(45,323,649)	(2,290,819)	(4,746,359)	(16,259,626)	(21,005,985)	(74,675,771)
Net claims incurred	5,545,953	20,731,478	(452,760)	23,805,879	6,332,707	30,138,586	55,963,257
2005							
Gross paid less salvage	6,655,943	29,078,862	1,744,670	20,886,763	10,787,000	31,673,763	69,153,238
Reinsurance recoveries	(1,658,049)	(5,790,132)	(1,056,515)	(2,224,609)	(3,578,942)	(5,803,551)	(14,308,247)
Net claims paid	4,997,894	23,288,730	688,155	18,662,154	7,208,058	25,870,212	54,844,991
Net outstanding claims:							
At 31 December	6,055,318	45,323,649	2,290,819	4,746,359	16,259,626	21,005,985	74,675,771
At 1 January	(5,564,135)	(57,533,617)	(2,512,244)	(5,831,162)	(17,083,840)	(22,915,002)	(88,524,998)
Net claims incurred	5,489,077	11,078,762	466,730	17,577,351	6,383,844	23,961,195	40,995,764

23. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share of RM1.00 each is based on the profit after taxation for the year of RM11,044,437 (2005: RM9,667,577) over the number of shares in issue during the year of 100,000,000 (2005: 100,000,000). There is no dilution in earnings per share as there were no dilutive potential ordinary shares as at 31 December 2006.

24. SEGMENT INFORMATION ON CASH FLOW

	Shareholder's fund RM	General business RM	Total RM
2006			
Cash flows from:			
Operating activities	10,668,533	(833,369)	9,835,164
Investing activities	–	(540,780)	(540,780)
Financing activities	(10,800,000)	–	(10,800,000)
	(131,467)	(1,374,149)	(1,505,616)
Net decrease in cash and cash equivalents:			
At beginning of financial year	(283,883)	(3,882,925)	(4,166,808)
At end of financial year	152,416	2,508,776	2,661,192
	(131,467)	(1,374,149)	(1,505,616)
2005			
Cash flows from:			
Operating activities	9,205,031	(3,209,360)	5,995,671
Investing activities	–	(943,025)	(943,025)
Financing activities	(9,000,000)	(316)	(9,000,316)
	205,031	(4,152,701)	(3,947,670)
Net decrease in cash and cash equivalents:			
At beginning of financial year	(78,852)	(8,035,626)	(8,114,478)
At end of financial year	283,883	3,882,925	4,166,808
	205,031	(4,152,701)	(3,947,670)

25. CAPITAL COMMITMENTS

	2006 RM	2005 RM
Approved and contracted for:		
Property and equipment	19,942	20,784

26. SIGNIFICANT RELATED PARTY DISCLOSURES

	2006 RM	2005 RM
Insurance premiums from:		
Holding company	43,011	43,689
Fellow subsidiaries		
– Pacific Mutual Fund Bhd	155,301	134,967
– Pac Lease Sdn. Bhd.	37,273	33,463
– P. B. Pacific Sdn. Bhd.	89,091	75,828
Associated company of the holding company		
– Malaysian Trustees Berhad	16,650	41,170
Substantial shareholder of the holding company		
– United Malacca Berhad	81,716	67,757
– Koperasi Angkatan Tentera Malaysia Berhad	17,204	12,171
Reinsurance premiums from:		
Subsidiary of a substantial shareholder of the holding company		
– Overseas Assurance Corporation (Malaysia) Berhad	128,404	109,322
Interest income from fixed and call deposits placed with:		
Subsidiary of a substantial shareholder of the holding company		
– OCBC Bank (Malaysia) Berhad	908,012	321,514
Insurance premiums to:		
Subsidiary of a substantial shareholder of the holding company		
– Great Eastern Life Assurance (Malaysia) Berhad	(78,085)	(53,943)
Insurance commissions including agency commissions to:		
Fellow subsidiary		
– Pac Lease Sdn. Bhd.	(456,616)	(375,688)
Substantial shareholder of the holding company		
– United Malacca Berhad	(35,234)	(51,079)
Subsidiary of a substantial shareholder of the holding company		
– OCBC Bank (Malaysia) Berhad	(47,108)	(30,777)
Claims payment to:		
Holding company	(10,095)	(11,278)
Fellow subsidiaries		
– Pac Lease Sdn. Bhd.	(13,325)	(10,814)
– P. B. Pacific Sdn. Bhd.	(9,500)	(2,550)
– Pacific Mutual Fund Bhd	(58,058)	(9,441)
Substantial shareholder of the holding company		
– United Malacca Berhad	(146,929)	(55,409)
Management fees to:		
Holding company	(1,415,401)	(1,648,500)

26. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

	2006 RM	2005 RM
Rental payments to:		
Fellow subsidiary		
– P.B. Pacific Sdn. Bhd.	(1,200,399)	(1,205,550)
Investment management fees to:		
Fellow subsidiary		
– PacificMas Asset Management Sdn. Bhd.	(145,865)	(159,430)
Insurance premiums including agency premiums receivable from:		
Fellow subsidiary		
– Pac Lease Sdn. Bhd.	238,308	231,577
Substantial shareholder of the holding company		
– United Malacca Berhad	9,081	1,882
Current account balances with:		
Subsidiary of a substantial shareholder of the holding company		
– OCBC Bank (Malaysia) Berhad	2,471,689	1,841,151
Deposits and prepayments receivable from:		
Fellow subsidiary		
– P.B. Pacific Sdn. Bhd.	351,619	351,619

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

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the Company's business activity whilst managing the Company's interest rate, liquidity, market and credit risks. The Company operates within clearly defined guidelines that are approved by the Board and the Company's policy is not to engage in speculative transactions.

(b) Interest Rate Risk

The Company's primary interest rate risk relates to interest-bearing assets. The interest-bearing assets are made up primarily of fixed and call deposits with licensed financial institutions, Malaysian Government Securities, Cagamas bonds, Malaysian Government Guaranteed bonds and bonds issued by corporations in Malaysia. The interest rate risk arises from the interest rate movements affecting the investment and reinvestment of these interest-bearing assets.

The Company manages the interest rate risk of its deposits with licensed financial institutions by maintaining a prudent mix of short and longer term deposits and actively reviewing its portfolio of deposits.

27. FINANCIAL INSTRUMENTS (CONT'D)

(c) Liquidity Risk

The Company actively manages the profile of its deposits with financial institutions, operating cash flows and the availability of funding so as to ensure that all operating needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

(d) Market Risk

The Company's investments in Government securities, Cagamas bonds, GII and corporate bonds, equities and unit trusts, are subject to fluctuations in market prices on listed stock exchanges and the secondary bond market. The Company's investments in equities are managed by licensed asset management companies. The Company has given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk.

The unit trusts held by the Company are invested with licensed unit trust management companies which are governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Company monitors the performance of the unit trust investments against the relevant performance benchmarks established by the Company.

(e) Credit Risk

Credit risk arises when the Company's cash assets are placed in interest-bearing instruments, mainly fixed deposits and repurchase agreements with licensed financial institutions. The Company manages this credit risk by spreading its deposits with a large group of financial institutions.

Trade receivables are monitored regularly and the Company adopts various internal control measures to minimise this credit risk.

27. FINANCIAL INSTRUMENTS (CONT'D)

(f) Fair Values

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

	Note	Carrying amount RM	Fair value RM
At 31 December 2006:			
Investment properties	6	840,157	1,015,000
Investments	7		
MGS		13,254,875	13,351,850
GII		10,125,028	10,225,000
Quoted unit trusts		9,440,694	9,502,614
Cagamas bonds		5,000,714	5,000,500
Unquoted corporate bonds		33,070,720	33,432,340
		70,892,031	71,512,304
At 31 December 2005:			
Investment properties	6	864,799	1,015,000
Investments	7		
MGS		17,255,396	17,590,163
Cagamas bonds		10,017,374	10,019,000
Unquoted corporate bonds		32,781,611	32,907,000
		60,054,381	60,516,163

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

(i) Cash and Cash Equivalents and Other Receivables/Payables

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

(ii) Investment properties

The fair values of investment properties are based on the market values of the properties as assessed by independent professional valuers.

27. FINANCIAL INSTRUMENTS (CONT'D)

(f) Fair Values (cont'd)

(iii) Investments

The fair values of quoted investments are determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

The fair values of quoted units in unit trust funds are determined by reference to market quotations by the manager of the unit trust funds.

The fair values of MGS, GII, Cagamas and unquoted corporate bonds are indicative values obtained from the secondary market.

28. SIGNIFICANT EVENT

On 11 December 2006, the proposed restructuring of the equity and insurance operations of Great Eastern Life Assurance (Malaysia) Berhad and Overseas Assurance Corporation (Malaysia) Berhad with those of the holding company, PacificMas Berhad, as reported in the previous annual report, was discontinued.

29. COMPARATIVES

The comparative figures for the year 2005 have been adjusted as follows:

	Note	Previously stated RM	Adjustment RM	Restated RM
Receivables				
Other receivables, deposits and prepayments	9	9,852,986	(918,165)	8,934,821
Tax recoverable	9	502,655	408,001	910,656
Tax payable		510,164	(510,164)	–
Other operating income/(expenses)				
Net gain on disposal of investments[1]	17	378,133	(378,133)	–
Gain on disposal of investments[1]	17	–	3,095,910	3,095,910
Loss on disposal of investments[1]	17	–	(2,717,777)	(2,717,777)

[1] The above comparatives have been restated to reflect the gain or loss on disposal of investments on a gross basis from net basis as previously reported.

The above reclassifications were made in accordance with the current year's presentation of the financial statements.

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