ANNUAL REPORT 2007

PACIFIC INSURANCE

Wholly-owned subsidiary of PACIFICMAS BERHAD

PEOPLE FIRST

Having made our mark in the Malaysian insurance industry since the 1950's, we at Pacific Insurance have created an environment where people with energy, creativity and commitment work together to fulfil ambitious goals.

Today, Pacific Insurance is geared towards even greater success, driven by our values, attitude and teamwork that will prepare us for the complex challenges ahead.

Jacqueline Chan
Broking

Liz Asnawati
Direct Business &
Customer Care

Faizal Ali
Direct Business &
Customer Care

Rajendran
KL Agencies

CONTENTS

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 3rd largest medical insurance provider and the 2nd largest individual medical insurance provider in 2007.

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.

Midorin Ho
Financial Services

Noor Hayati
Medical

Phoon Bee Chin
Underwriting & Reinsurance

Vijayakumar
Policy Processing

KEY ACHIEVEMENTS IN 2007

- Gross premiums rose by 2.9% to a record high of RM130.42 million (2006 : RM126.79 million).
- Profit before tax rose by 1.2% to RM14.46 million (2006 : RM14.29 million).
- Ranked as the 3rd largest medical insurer within the Malaysian general insurance industry and ranked 2nd in individual medical insurance.

Chairman's Statement

"On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of our Company for the financial year ended 31 December 2007."

OVERVIEW

The Malaysian general insurance industry continued to operate under a highly competitive operating environment in 2007. Motor insurance performance was weak, particularly in the first half of the year due to lower sales and lower prices of motor vehicles as well as higher theft and bodily injury claims. This was however, compensated by strong growth in medical insurance. As a result, the industry recorded a higher growth rate of 4.1% in gross premiums to reach RM11.49 billion in 2007 (2006 : growth of 3.2% to RM11.04 billion).

COMPANY'S PERFORMANCE

FINANCIAL REVIEW

Against the background of a tough insurance market, our Company continued to report positive results.

Gross premiums of our Company grew to a new record level of RM130.42 million in 2007, albeit at a lower growth rate of 2.9% compared with 13.8% recorded in 2006. The lower growth was largely attributable to slower growth in the motor portfolio and our deliberate effort in discontinuing the unprofitable foreign maid personal accident business.

Medical insurance gross premiums recorded a growth of 5.9% in 2007 (2006 : 21.6%) to reach RM41.74 million. Medical insurance continued to be the dominant class of our business with a 32% share of gross premiums in 2007 (2006 : 31%). This was followed by motor insurance, with a share of 26% (2006 : 27%). Within the general insurance industry, our Company was ranked as the 3rd largest medical insurance provider in 2007 (2006 : 2nd) and ranked 2nd in individual medical insurance business (2006 : 1st).

Our Company's net claims incurred ratio deteriorated to 62.7% in 2007 (2006 : 58.9%) due to adverse claims experience. Nevertheless, it was still better than the industry's ratio of 65.7%. As a result of the higher net claims incurred ratio, our Combined Ratio (comprising net commission, net claims incurred, management expenses and bad and doubtful debts expenses as a percentage of net earned premiums) rose to 99.0% in 2007 (2006 : 97.9%). Consequently, our Company recorded a lower underwriting surplus of RM1.05 million in 2007 (2006 : RM2.03 million).

Despite the lower underwriting results, our Company recorded a marginal increase of 1.2% in profit before tax in 2007 to reach RM14.46 million (2006 : RM14.29 million). This was due to higher investment and other operating income, which increased by 9.4% in 2007 to reach RM13.51 million (2006 : RM12.35 million).

An interim gross dividend of 40 sen per share less income tax of 27% amounting to RM29.2 million was paid in respect of the financial year ended 31 December 2007 to our holding company, PacificMas Berhad (2006 : 15 sen per share less income tax of 28% amounting to RM10.8 million). The balance sheet of our Company remained strong notwithstanding the payment of this interim dividend. As at 31 December 2007, total Assets amounted to RM241.6 million (2006 : RM264.8 million) while total Equity amounted to RM115.0 million (2006 : RM134.2

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

million). Our solvency margin was RM33.6 million as at 31 December 2007 (2006 : RM41.4 million). Our Company was in a very strong financial position, with a capital adequacy ratio of 310% as at 31 December 2007, well in excess of the supervisory target rate of 130% set by Bank Negara Malaysia under the Risk-Based Capital Framework to be implemented in 2009.

OPERATIONAL REVIEW

Business Development

Our Company continued to develop the bancassurance arrangement initiated in June 2006 with a major financial institution. Gross premiums contributed by the financial institution grew by 120% to RM0.76 million in 2007 (2006 : RM0.34 million).

Two new products were launched in 2007. The first is MaxProtector, a personal accident product developed for the exclusive distribution by our Company's bancassurance partner. The second is PACIFIC X'tra PA, a basic personal accident product for foreign workers. In addition, our Company also re-launched our critical illness product, PACIFIC Medi-Help, offering a more competitive premium rate, higher age limit for new application and for renewal, as well as pricing on a portfolio basis.

In the course of 2007, our Company continued to expand the agency network while at the same time, nurtured relationship with existing agents and intermediaries. In addition, encouraging inroads were made in securing business from the broking source. Efforts were also intensified in promoting and marketing personal insurance products, particularly in medical and personal accident insurance, due to their relative profitability.

Enhancing Underwriting Profitability

Concerted efforts were made in 2007 to enhance underwriting profitability.

Motor underwriting guidelines were further tightened in 2007 to better manage our motor portfolio. As a result, our Company managed to improve motor underwriting performance from an underwriting loss (after management expenses) of RM1.26 million in 2006 to a marginal underwriting loss of RM0.23 million in 2007. Our Company's motor net claims incurred ratio in 2007 was 64.0% (2006 : 66.7%) compared with 80.9% recorded by the Industry.

More stringent underwriting acceptances were imposed on certain fire business and more risk surveys were conducted due to the increasing risk of moral hazard. In addition, in an effort to improve the overall profitability of the personal accident class of business, our Company has discontinued writing the foreign maid personal accident insurance.

Management continued to carry out cost control measures to contain management expenses. As a result, management expenses ratio (ie.management expenses [excluding bad and doubtful debts expenses] as a percentage of net earned premiums) decreased to 26.1% in 2007 from 27.2% in 2006. This ratio will continue to be progressively reduced through increase in premium income as well as continuous monitoring and control of management expenses.

Operational Improvements

Our Company conducts periodic reviews of our internal operational workflow to meet the increasingly demanding expectations from our customers on the quality and speed of service delivery.

Our Company's policy processing centralisation project, which was undertaken to improve service delivery, was completed in December 2007. Policies which continue to be processed at branch level for the purpose of expediency are motor, driver and passengers insurance, foreign workers bond, foreign workers compensation and marine cargo. Centralisation of claims processing was also completed in December 2007. Our Company has benefited from the centralisation project via higher levels of processing accuracy and a shorter processing turnaround time. In addition, personnel at branches have been more effectively redeployed to perform marketing functions.

As part of the policy processing centralisation project, our Company also embarked on an output management project in end-2007 to improve the quality and speed of policy processing. Policy printing for several classes of business was successfully implemented in the early part of 2008.

Further to the success of medical policies auto-renewal in 2005, our Company extended the auto-renewal arrangement to individual personal accident policies in the second half of 2007. This resulted in an improved renewal ratio as well as faster delivery of policies to customers.


Central Region Sales Meeting
June 2008


Agency Training at Head Office
June 2008


Chinese New Year Get Together
February 2008

CORPORATE DEVELOPMENT

OCBC Capital (Malaysia) Sdn Bhd, a wholly owned subsidiary of Oversea-Chinese Banking Corporation Limited ("OCBC"), has successfully undertaken a conditional take-over offer for all the voting shares in our holding company, PacificMas Berhad, at a cash offer price of RM4.30 per share ("the Offer"). After the Offer closed on 8 April 2008, our holding company became a 67.07% subsidiary of OCBC. Consequently, the public shareholding spread of our holding company fell below the 25% public shareholding level stipulated by the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). Our holding company has received the approval of Bursa Securities for an extension of time until 25 June 2008 to enable the substantial shareholders to rectify the public shareholding spread in order to maintain its listing status.

The Offer, which was approved by the Minister of Finance on 21 March 2008, is subject to the following conditions :

a) OCBC is required to resolve its holdings in our Company and its other insurance arm, Overseas Assurance Corporation (Malaysia) Berhad ("OACM") within 18 months of the date of completion of the Offer; and

b) In the event of a merger between OACM and our Company, OCBC is required to dispose of and limit its interest in the merged entity to not more than 51%, within 18 months from the date of completion of the Offer.

PROSPECTS

The outlook for the insurance industry is expected to be challenging in 2008 in the face of increasing competition as well as higher claims experience under more volatile market conditions.

Our Company's priority in 2008 is to consolidate our position by focusing on achieving higher underwriting surplus while at the same time, ensuring respectable premium growth and returns on shareholder's funds.

Business development activities undertaken in the first three months of 2008 included the launch of a personal accident product for the exclusive distribution of one of our major business partners and entering into a strategic alliance to provide foreign workmen insurance.

Our Company will continue to focus on achieving underwriting profit by growing the more profitable classes of business and by being more selective in risk acceptances. Effort will also be centered on compliance and enforcement of cash before cover and premium warranty requirements. Our Company will continue to seek out new business partners as well as nurture business relationship with existing partners. At the same time, operational efficiency and back end processes will be further enhanced to improve service delivery to customers.

Barring unforeseen circumstances, our Company's prospect in 2008 is expected to be satisfactory.

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.

I will be relinquishing my position as Chairman of the Company towards the end of June 2008. I would like to take this opportunity to express my heartfelt gratitude to all past and present staff and directors of the Company for all the support, cooperation and guidance extended to me throughout the years I have been associated with the Company.

CHOI SIEW HONG KMN, JMN
CHAIRMAN

29 April 2008

Corporate Information

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 86

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 70

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

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 63

Lai Wan

Member of the Board

Independent
Non-Executive Director

Member of Audit Committee

Member of Risk
Management Committee

Malaysian - age 65

Ng Hon Soon

Member of the Board

Non-Independent
Non-Executive Director

Malaysian - age 47

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

Management Team

CEO'S OFFICE

Seated
Sonny Tan Siew Hock
Chief Executive Officer

Standing (right)
Ong Boon Hock
Senior General Manager

Standing (left)
Neoh Guan Hup
General Manager
- Branch Operations

TECHNICAL TEAM

Left to Right :

Paul Lee Seng Hock
Assistant General Manager
- Underwriting & Reinsurance

Richard Liang Lip Kin
Senior Manager
- Medical Insurance

Francis Cham Hock Seng
Senior Manager
- Non-Medical Claims

SUPPORT TEAM

Left to Right :

Jennifer Ong Bee Choo
Senior Manager
- Research & Systems

Freddy Wee Chee Sung
Manager
- Policy Processing

Shirley Chen Ooi Wai
Senior Manager
- Financial Services

BUSINESS DEVELOPMENT TEAM

Left to Right :

Khoo Kin Mun
Senior Manager
- KL Agencies

Michael Choo Heng Sai
Senior Manager
- Broking

Tay Yew Lean
Senior Manager
- Direct Business & Customer Care

Choong Phan Onn
Manager
- Agency Development

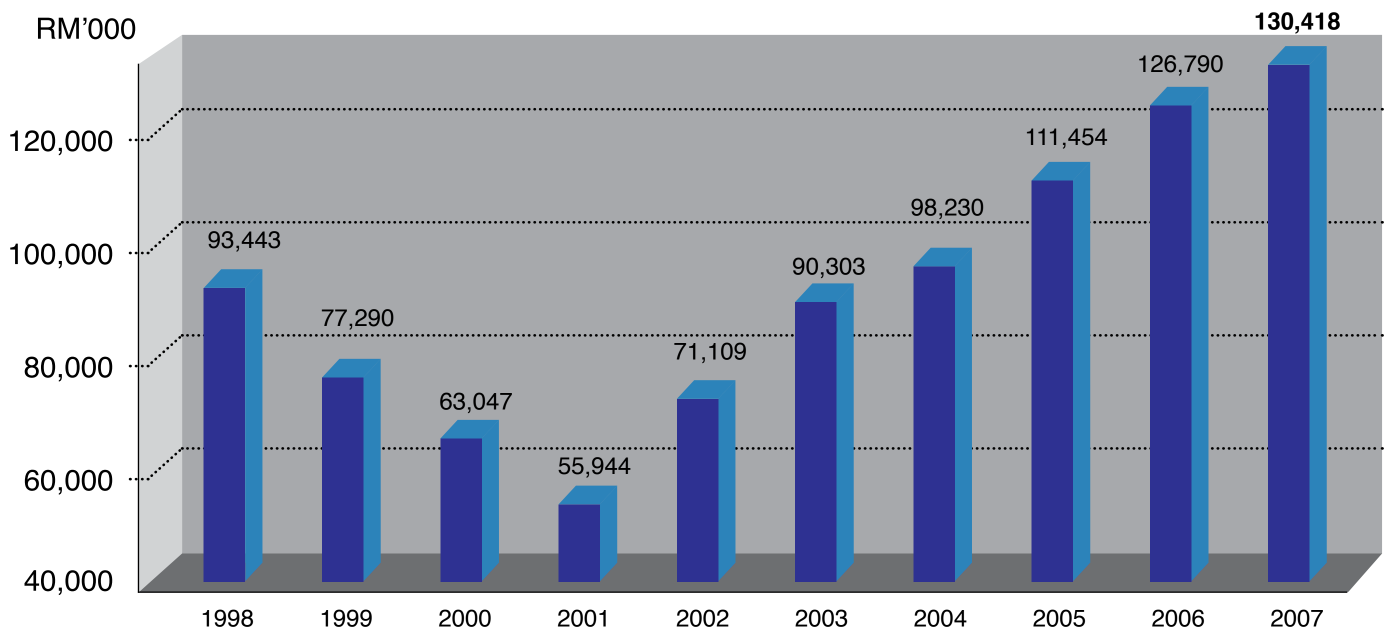
Financial Highlights

KEY FINANCIAL INDICATORS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

RM'000	1998	1999	2000	2001
Gross Premiums	93,443	77,290	63,047	55,944
Underwriting Surplus / (Deficit)	(11,466)	6,332	4,844	392
Profit Before Tax	918	19,024	5,613	9,485
Total Equity	55,716	75,204	79,055	120,913
Total Assets	152,317	159,306	153,505	191,443

GROSS PREMIUMS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER

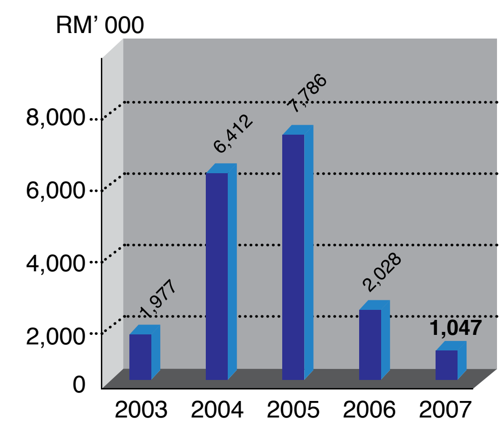
RM'000	1998	1999	2000	2001
Medical	25,313	18,717	13,237	13,358
Motor	28,085	19,433	16,949	17,415
Fire	23,052	24,472	20,672	13,508
Others	16,993	14,668	12,189	11,663
TOTAL	**93,443**	**77,290**	**63,047**	**55,944**



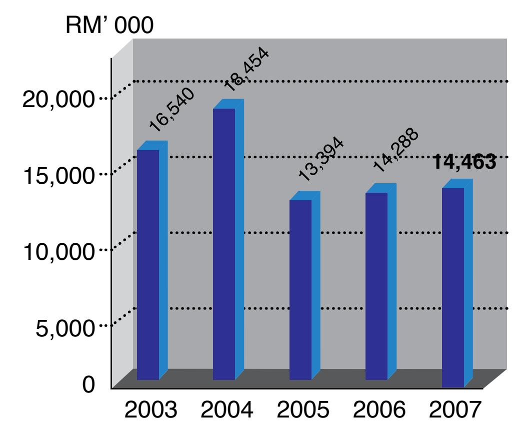
GROSS PREMIUMS
10 YEARS TRACK RECORD

2002	2003	2004	2005	2006	2007
71,109	90,303	98,230	111,454	126,790	130,418
(5,666)	1,977	6,412	7,786	2,028	1,047
10,559	16,540	18,454	13,394	14,288	14,463
126,035	128,267	133,284	133,917	134,161	114,995
240,435	245,510	271,496	260,538	264,829	241,585

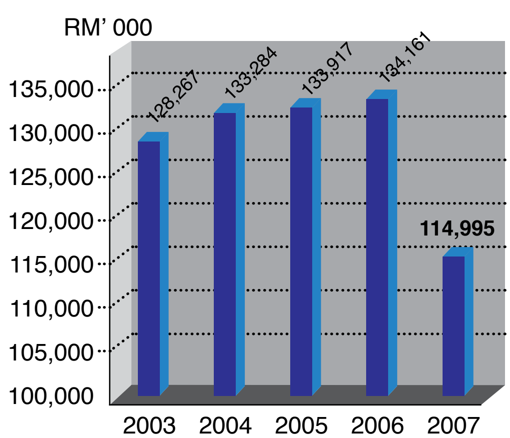
2002	2003	2004	2005	2006	2007
15,093	27,312	33,892	32,423	39,416	41,744
21,596	22,463	23,038	31,143	34,770	33,784
16,690	17,505	17,835	19,532	21,215	22,009
17,730	23,023	23,465	28,356	31,389	32,881
71,109	**90,303**	**98,230**	**111,454**	**126,790**	**130,418**



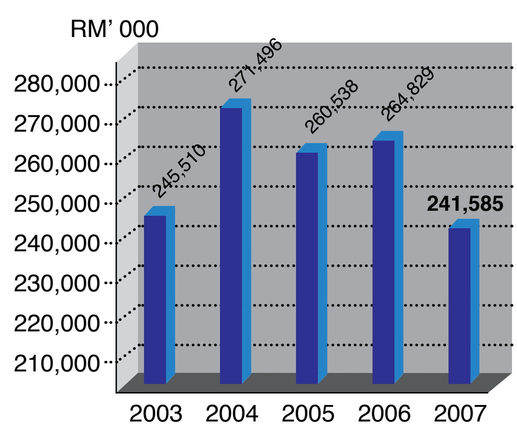
UNDERWRITING SURPLUS / (DEFICIT)
5 YEARS TRACK RECORD



PROFIT BEFORE TAX
5 YEARS TRACK RECORD



TOTAL EQUITY
5 YEARS TRACK RECORD



TOTAL ASSETS
5 YEARS TRACK RECORD

Our Range of Products

MEDICAL INSURANCE

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 2007, we were ranked as the 3rd largest medical insurer within the Malaysian general insurance industry and ranked 2nd in individual medical insurance.

(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
- EVO Healthcare Insurance
- Golden M Healthcare Insurance
- Golden M Major Medical Insurance
- PHM Healthcare Insurance
- PHM VIP Healthcare Insurance
- Group Hospitalisation & Surgical Insurance

Motor Insurance

- Private Cars
- Commercial Vehicles
- Motorcycles

Fire Insurance

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

Other Insurances

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

Innovative Products : Our products are designed with customers in mind. Comprehensive coverage, affordable premium and a wide range of plans – these are the hallmarks of our product design philosophy.

Corporate Calendar

▲ 2007 Agency Excellence Awards - Recipients of Star Award

▲ 2007 Agency Excellence Awards - Recipients of Rising Star Award

2007 Agency Convention

Agency Excellence Awards

9 - 10 April 2007

▲ 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

2006 Chairman's Awards

9 April 2007

▲ Chairman's Award for Best Production Unit :
Champion - Johor Bharu Branch

▲ Chairman's Award for Best Production Unit :
Runner-up - KL Agencies

▲ Chairman's Award for Best Support Unit :
Co-Winner - Policy Processing Dept I (HO)

▲ Chairman's Award for Best Support Unit :
Co-Winner - Medical Insurance Dept

▲ **2008 Budget Conference**
8 - 10 October 2007

▲ **Chinese New Year Get Together**
2 March 2007

▲ **Recycling Campaign**

▲ **Pacific Insurance & Pac Lease Jungle Walk**
24 March 2007

FINANCIAL STATEMENTS

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 2007.

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 ("PacificMas"), 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	10,034,120

There were no material transfers to or from reserves or provisions during the financial year.

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.

DIVIDENDS

The amount of dividends declared and paid by the Company since 31 December 2006 was as follows:

	RM
In respect of the financial year ended 31 December 2007	
Interim dividend of 40.0 sen per share less 27% taxation,	
paid on 14 December 2007	29,200,000

The directors do not propose any final dividend for the financial year ended 31 December 2007.

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, Lai Wan will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DIRECTORS (Contd)

Pursuant to Section 129 of the Companies Act, 1965, Choi Siew Hong and Tan Sri Dato' Nasrudin bin Bahari will retire at the forthcoming Annual General Meeting and resolutions will be proposed for their re-appointment as directors 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 interests 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 (Consolidated): Minimum Standards for Prudential Management of Insurers and JPI/GPI 25 (Consolidated): Prudential Framework of Corporate Governance for Insurers. The Company has complied with the prescriptive applications and adopts management practices that are consistent with these guidelines.

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 review and approval of annual business and strategic plans, business operations and financial performance 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, including investment policies, reinsurance, underwriting, risk management and compliance issues.

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 fulfilment of 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.

The Board met 12 times during the financial year and the attendance of the directors was as follows:

Name	Number of meetings Attended	%
Choi Siew Hong (Chairman)	12/12	100
Tan Sri Dato' Nasrudin bin Bahari	11/12	92
Keong Choon Keat	12/12	100
Lai Wan	12/12	100
Ng Hon Soon	12/12	100

CORPORATE GOVERNANCE (Contd)

(a) Board Responsibility and Oversight (Contd)

Board Committees

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

(i) Audit Committee

The Audit Committee ("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 9 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)	9/9	100
Keong Choon Keat	9/9	100
Lai Wan	9/9	100

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. In this regard, the AC has independent access to the Company's internal auditors, external auditors and management to enable it to discharge its functions. The AC reviews the findings of the internal/external auditors and those of the examiners from BNM, 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’ investments 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 reviews and approves any outsourcing of non-audit services provided by external auditors and internal audit services and recurrent related party transactions undertaken by the Company.

CORPORATE GOVERNANCE (Contd)

(a) Board Responsibility and Oversight (Contd)

Board Committees (Contd)

(ii) Risk Management Committee

The Risk Management Committee ("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/GPI 1 (Consolidated): Minimum Standards for Prudential Management of Insurers 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, risk portfolio 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.

Nomination and Remuneration Committees

With the approval given by BNM, the functions and responsibilities of these two committees above are undertaken by the Nomination Committee ("NC") and Remuneration Committee ("RC") of the holding company, 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/GPI 1 (Consolidated): Minimum Standards for Prudential Management of Insurers.

CORPORATE GOVERNANCE (Contd)

(a) Board Responsibility and Oversight (Contd)

Nomination and Remuneration Committees (Contd)

(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 responsible to recommend to the Board the appointment of the Chief Executive Officer and evaluate the performance of key senior officers of the Company.

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.

CORPORATE GOVERNANCE (Contd)

(a) Board Responsibility and Oversight (Contd)

Nomination and Remuneration Committees (Contd)

(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 2 times during the financial year and the attendance of the members was as follows:

Name	**Number of meetings Attended**	**%**
Keong Choon Keat (Chairman)	2/2	100
Choi Siew Hong	2/2	100
Sharriffudin Ahmad Taff	2/2	100
Wong Nang Jang	2/2	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.

(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 approving and 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.

CORPORATE GOVERNANCE (Contd)

(c) Corporate Independence

The Company has met all the requirements of BNM's JPI/GPI 19 (Consolidated): Guidelines of Related Party Transactions. All material related party transactions have been disclosed in the audited financial statements in accordance with Financial Reporting Standard ("FRS") 124: Related Party Disclosures. Other than the provision of financial services which are on normal commercial terms and in the ordinary course of business, 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 the 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 ("RMO") 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.

(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 26 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 Information Technology ("IT") Environment, the Company has in place the Business Resumption and Contingency Plan (“BRCP”) which was revised and approved by the Board in March 2007. 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. The BRCP of the Company is subject to review and revision to incorporate the requirements of BNM/RH/GL 013-3: Guidelines on Business Continuity Management which comes into effect on 1 January 2008.

CORPORATE GOVERNANCE (Contd)

(d) Internal Controls and Operational Risk Management (Contd)

(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 risks 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 put 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 BNM guidelines and laws to prevent the Company from being used as a channel to launder funds in the financial system. The framework has been revised and approved by the Board of Directors in November 2007 to comply with the Anti-Money Laundering & Anti-Terrorism Financing Act 2001, as well as BNM's UPW/GP1[2]: AML/CFT – Sectoral Guidelines 2 for Insurance and Takaful Industries.

(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.

(v) The Company has a Product Development Committee which undertakes the planning, design and development of new products, as well as review of the Company's products against the prevailing guidelines such as BNM's JPI/GPI 16 (Revised): Guidelines on Medical and Health Insurance Business and JPI/GPI 32: Guidelines on Minimum Disclosure Requirements in the Sale of General Insurance Products.

(vi) A Goods and Services Tax ("GST") Committee has been formalised during the financial year in view of the impending GST implementation. The early planning in this area serves to prepare the Company for the GST regime to implement necessary operational adjustments in the areas of business processes, system development and personnel training. The Company has embarked on the first phase of the project by mapping the GST input/output transactions and identifying the GST implications in the Company's business operations and management information system.

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.

The Company has put 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. In addition, the necessary procedures and disclosures are also updated to address the requirements of FRS 124: Related Party Disclosures which became mandatory during the year.

CORPORATE GOVERNANCE (Contd)

(d) Internal Controls and Operational Risk Management (Contd)

The Company has outsourced the internal audit function to the Group Internal Audit Department of the holding company, PacificMas, to provide the Board of Directors with much of the assurance it requires regarding the adequacy and integrity of the systems of internal control. 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 BNM'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. Internal auditors independently review the risk exposures and control processes on governance, operations and information systems implemented by management. 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.

During the financial year, the internal audit function reported 9 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 and Market Conduct Department, in compliance with the requirements of BNM's JPI/GPI 14 (Consolidated): Guidelines on Claims Settlement Practices. 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 having in place a Centralised Complaints Unit to provide effective and fair services to the customers.

The Company has also taken the necessary measures to comply with the requirements pursuant to BNM's JPI/GPI 16 (Revised): Guidelines on Medical and Health Insurance Business and JPI/GPI 32: Guidelines on Minimum Disclosure Requirements in the Sale of General Insurance Products.

(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 Financial Reporting Standards in Malaysia, 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, 19 and 25 to the financial statements and the financial statements of its related corporations or the fixed salary and benefits of a full-time employee of the holding company) 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 2007	**Bought**	**Sold**	**31 December 2007**
Holding company				
– PacificMas Berhad				
Choi Siew Hong				
– direct interest	**201,000**	**–**	**–**	**201,000**
– indirect interest*	**2,000**	**–**	**–**	**2,000**
Lai Wan				
– direct interest	**10,000**	**–**	**–**	**10,000**
Ng Hon Soon				
– indirect interest	**5,000**	**–**	**–**	**5,000**

* Includes his son's interest in the Register of Directors' Shareholdings pursuant to Section 134(12)(c) of the Companies Act, 1965 (as amended), effective from 15 August 2007.

Other than as disclosed, none of the directors in office at the end of the financial year had 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.

OTHER STATUTORY INFORMATION (Contd)

(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 paragraphs (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.

SUBSEQUENT EVENT

The subsequent event of the Company is disclosed in Note 27 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 20 February 2008.

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia
20 February 2008

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 30 to 65 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2007 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 20 February 2008.

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia
20 February 2008

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 30 to 65 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 20 February 2008)

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 30 to 65. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

(a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:

  (i) the financial position of the Company as at 31 December 2007 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. 1056/03/09(J/PH)
Partner

Kuala Lumpur, Malaysia
20 February 2008

BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	2007 RM	2006 RM
ASSETS			
Property and equipment	3	**1,901,353**	2,085,314
Intangible assets	4	**54,262**	67,417
Deferred tax assets	5	**–**	18,760
Investment properties	6	**815,715**	840,157
Investments	7	**203,158,175**	225,123,645
Loans	8	**3,404,137**	3,304,968
Tax recoverable		**699,248**	1,386,808
Receivables	9	**29,459,734**	29,340,563
Cash and bank balances		**2,092,043**	2,661,192
TOTAL ASSETS		**241,584,667**	264,828,824
EQUITY AND LIABILITIES			
Share capital	10	**100,000,000**	100,000,000
Retained profits		**14,995,347**	34,161,227
Total equity		**114,995,347**	134,161,227
Unearned premium reserves	11	**42,624,595**	42,705,133
Provision for outstanding claims	12	**71,449,389**	74,479,170
Payables	13	**12,063,936**	13,483,294
Tax payable		**371,743**	–
Deferred tax liabilities	5	**79,657**	–
Staff retirement gratuities	14	**–**	–
Total liabilities		**126,589,320**	130,667,597
TOTAL EQUITY AND LIABILITIES		**241,584,667**	264,828,824

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Share capital RM	Distributable retained profits RM	Total RM
At 1 January 2006		100,000,000	33,916,790	133,916,790
Net profit for the year, representing **Total recognised income for the year**		–	11,044,437	11,044,437
		100,000,000	44,961,227	144,961,227
Dividends	15	–	(10,800,000)	(10,800,000)
At 31 December 2006		100,000,000	34,161,227	134,161,227
At 1 January 2007		**100,000,000**	**34,161,227**	**134,161,227**
Net profit for the year, representing **Total recognised income for the year**		**–**	**10,034,120**	**10,034,120**
		100,000,000	**44,195,347**	**144,195,347**
Dividends	15	**–**	**(29,200,000)**	**(29,200,000)**
At 31 December 2007		**100,000,000**	**14,995,347**	**114,995,347**

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 RM	2006 RM
Operating revenue	16	**139,516,694**	135,478,254
Shareholder's fund:			
Investment income	16a	**570,648**	533,408
Other operating income	17	**103,054**	115,265
Management expenses	18	**(95,089)**	(90,136)
Surplus transferred from General Insurance Revenue Account		**13,884,346**	13,729,388
Profit before taxation		**14,462,959**	14,287,925
Taxation	20	**(4,428,839)**	(3,243,488)
Net profit for the year		**10,034,120**	11,044,437
Earnings per share (sen)	22		
Basic		**10.0**	11.0

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

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

		Fire		Motor		Marine, Aviation and Transit		Miscellaneous ("Misc.") Medical & Health		Miscellaneous ("Misc.") Others		Miscellaneous ("Misc.") Total Misc.		Total	
	Note	2007 RM	2006 RM	2007 RM	2006 RM	2007 RM	2006 RM	2007 RM	2006 RM	2007 RM	2006 RM	2007 RM	2006 RM	2007 RM	2006 RM
Operating revenue	16													138,946,046	134,944,846
Gross premiums		**22,008,630**	21,214,713	**33,784,183**	34,770,061	**4,831,740**	3,354,522	**41,743,623**	39,416,469	**28,050,078**	28,034,216	**69,793,701**	67,450,685	**130,418,254**	126,789,981
Reinsurance		**(10,398,287)**	(9,579,780)	**(2,807,910)**	(3,136,709)	**(3,819,869)**	(2,426,746)	**(2,899,201)**	(2,490,308)	**(10,538,442)**	(9,352,935)	**(13,437,643)**	(11,843,243)	**(30,463,709)**	(26,986,478)
Net premium		**11,610,343**	11,634,933	**30,976,273**	31,633,352	**1,011,871**	927,776	**38,844,422**	36,926,161	**17,511,636**	18,681,281	**56,356,058**	55,607,442	**99,954,545**	99,803,503
Decrease/ (increase) in unearned premium reserves	11	**232,527**	(614,360)	**49,415**	(538,921)	**(68,452)**	175,196	**(500,127)**	(2,991,476)	**367,175**	(860,288)	**(132,952)**	(3,851,764)	**80,538**	(4,829,849)
Earned premium		**11,842,870**	11,020,573	**31,025,688**	31,094,431	**943,419**	1,102,972	**38,344,295**	33,934,685	**17,878,811**	17,820,993	**56,223,106**	51,755,678	**100,035,083**	94,973,654
Net claims incurred	21	**(7,146,540)**	(5,545,953)	**(19,845,331)**	(20,731,478)	**(160,849)**	452,760	**(28,836,609)**	(23,805,879)	**(6,745,704)**	(6,332,707)	**(35,582,313)**	(30,138,586)	**(62,735,033)**	(55,963,257)
Net commission		**(749,066)**	(1,395,616)	**(3,006,364)**	(3,114,074)	**253,020**	158,412	**(4,527,020)**	(4,439,759)	**(2,755,118)**	(3,351,503)	**(7,282,138)**	(7,791,262)	**(10,784,548)**	(12,142,540)
Underwriting surplus before management expenses		**3,947,264**	4,079,004	**8,173,993**	7,248,879	**1,035,590**	1,714,144	**4,980,666**	5,689,047	**8,377,989**	8,136,783	**13,358,655**	13,825,830	**26,515,502**	26,867,857
Management expenses	18													**(25,468,694)**	(24,839,387)
Underwriting surplus														**1,046,808**	2,028,470
Investment income	16a													**8,527,792**	8,154,865
Other operating income	17													**4,309,746**	3,546,053
Profit from operations														**13,884,346**	13,729,388
Transfer to Income Statement														**13,884,346**	13,729,388

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 RM	2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**14,462,959**	14,287,925
Adjustment for:		
Depreciation of property and equipment	**826,631**	1,117,503
Gain on disposal of property and equipment	**(34,068)**	(42,327)
Write off of property and equipment	**4,682**	5,688
Provision for/(writeback of) diminution in value of investments	**154,776**	(4,264,863)
Depreciation of investment properties	**24,442**	24,642
Amortisation of premiums, net of accretion of discounts	**540,185**	378,779
Amortisation of intangible assets	**23,289**	20,881
Net (gain)/loss on disposal of investments	**(4,206,739)**	988,879
Investment income	**(9,638,625)**	(9,067,052)
Other interest income	**(106,554)**	(118,765)
Interest expense	**115**	319
Bad debts recovered, net of write off	**(686,223)**	(955,063)
Provision for staff retirement gratuities	**–**	10,138
Short-term accumulating compensated absences	**2,868**	26,152
Net (decrease)/increase in unearned premium reserves	**(80,538)**	4,829,849
Profit from operations before changes in operating assets and liabilities	**1,287,200**	7,242,685
Purchase of investments	**(105,887,408)**	(78,423,220)
Proceeds from disposal/maturity of investments	**94,630,358**	98,847,115
(Increase)/decrease in loans	**(99,169)**	456,870
Decrease in receivables	**1,005,762**	526,028
Decrease/(increase) in fixed and call deposits	**36,734,299**	(23,580,986)
Decrease in outstanding claims	**(3,029,781)**	(196,601)
Decrease in payables	**(1,422,228)**	(378,612)
Cash generated from operations	**23,219,033**	4,493,279
Investment income received	**9,107,797**	8,999,704
Other interest income received	**106,554**	118,765
Interest expense paid	**(115)**	(319)
Income tax paid	**(3,179,000)**	(3,740,000)
Income tax refunds received	**–**	207,910
Staff retirement gratuities paid	**–**	(244,175)
Net cash generated from operating activities	**29,254,269**	9,835,164

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007 (Contd)

	2007 RM	2006 RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(723,164)**	(604,620)
Purchase of intangible assets	**(10,134)**	(13,550)
Proceeds from disposal of property and equipment	**109,880**	77,390
Net cash used in investing activities	**(623,418)**	(540,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid, representing Net cash used in financing activities	**(29,200,000)**	(10,800,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(569,149)**	(1,505,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	**2,661,192**	4,166,808
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	**2,092,043**	2,661,192
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	**2,092,043**	2,661,192

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2007

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 ("PacificMas"), 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 20 February 2008.

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 Financial Reporting Standards ("FRS") in Malaysia. At the beginning of the current financial year, the Company had adopted new and revised Financial Reporting Standards which are mandatory for financial periods beginning on or after 1 January 2007 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.2 Summary of Significant Accounting Policies (Contd)

(a) Property and Equipment and Depreciation (Contd)

Depreciation is provided for 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:

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

The residual values, useful lives 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 or loss/revenue account.

(b) Investment Properties

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

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.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal is recognised in profit or loss/revenue account in the year in which it arises.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.2 Summary of Significant Accounting Policies (Contd)

(c) Underwriting Results (Contd)

(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.

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 bonds	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 insurance policies written, 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 for claims incurred but not enough reported ("IBNER") and incurred but not reported ("IBNR") at the 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.2 Summary of Significant Accounting Policies (Contd)

(d) Other Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transactions 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 /distribution income from unit trust funds

Gross dividend/distribution income from unit trust funds is recognised on a declared basis when the shareholder's/unitholders' 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.

(iv) Net Realised Gain/Loss on Investments

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to profit or loss/revenue account.

(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, in which case the deferred tax is also recognised directly in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.2 Summary of Significant Accounting Policies (Contd)

(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.

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 are 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

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation. The Company makes statutory and voluntary contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss/revenue account as incurred.

(iii) Staff retirement gratuities

In 2006, the unfunded defined contribution staff retirement gratuities scheme for non-management employees was discontinued 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.2 Summary of Significant Accounting Policies (Contd)

(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.

(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. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.2 Summary of Significant Accounting Policies (Contd)

(i) Financial Instruments (Contd)

(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 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.

(j) Intangible Assets

Intangible assets of the Company consist of computer software.

Intangible assets acquired separately is measured on initial recognition at cost. Following initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses.

The computer software is 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 asset may be impaired.

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

The significant accounting policies adopted are consistent with those applied in the annual audited financial statements for the financial year ended 31 December 2006, except for the adoption of new/revised FRSs that are mandatory for the financial period beginning on or after 1 January 2007 as follows:

FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 117	Leases
FRS 124	Related Party Disclosures
Amendment to FRS 119_{2004}	Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

FRS 6 and FRS 117 are not relevant to the Company's operations.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

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

The adoption of amendment to FRS 119_{2004} does not have significant financial impact on the financial statments of the Company while the adoption of FRS 124 affects the level and extent of related party disclosures.

As at the date of authorisation of these financial statements, the Company has not adopted the deferred FRS 139 Financial Instruments: Recognition and Measurement as well as the following revised FRSs, amendment to FRS and Interpretations of the Issues Committee ("IC") issued by the Malaysian Accounting Standards Board ("MASB") which will be effective for financial periods beginning on or after 1 July 2007:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendments to FRS 121	The Effects of Changes in Foreign Exchange Rates – Net Investment in Foreign Operatin
FRS 134	Interim Reporting
FRS 137	Provisions, Contingent Liabilities and Contingent Assets
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129: Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The revised FRSs, amendment to FRS and IC Interpretation 8 are not expected to have significant financial impact on the financial statements of the Company upon their initial application for financial year commencing 1 January 2008.

Except for IC Interpretation 8, the other IC Interpretations are not relevant to the Company's operations.

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.

(a) Critical Judgements in Applying the Company's Accounting Policies

In the process of applying the Company's accounting policies, which are described above, management is of the opinion that there are no instances of judgement which are expected to have a significant financial impact on the amounts and balances recognised in the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (Contd)

2.4 Significant Accounting Estimates and Judgements (Contd)

(b) Key Sources of Estimation Uncertainty

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 significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) 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 claims 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
2007				
Cost				
At 1 January 2007	**1,734,740**	**400,668**	**7,038,346**	**9,173,754**
Additions	**130,563**	**199,590**	**393,011**	**723,164**
Disposals	**(30,987)**	**(170,598)**	**(123,257)**	**(324,842)**
Write-offs	**(36,115)**	**–**	**(187,631)**	**(223,746)**
At 31 December 2007	**1,798,201**	**429,660**	**7,120,469**	**9,348,330**
Accumulated Depreciation				
At 1 January 2007	**1,609,607**	**120,016**	**5,358,817**	**7,088,440**
Charge for the year	**115,176**	**40,548**	**670,907**	**826,631**
Disposals	**(30,987)**	**(99,800)**	**(118,243)**	**(249,030)**
Write-offs	**(35,909)**	**–**	**(183,155)**	**(219,064)**
At 31 December 2007	**1,657,887**	**60,764**	**5,728,326**	**7,446,977**
Net Carrying Amount	**140,314**	**368,896**	**1,392,143**	**1,901,353**
2006				
Cost				
At 1 January 2006	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	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	125,133	280,652	1,679,529	2,085,314

3. PROPERTY AND EQUIPMENT (Contd)

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

	2007 RM	2006 RM
Office renovations	**1,582,312**	1,444,097
Furniture, fittings, office equipment and computers	**4,064,516**	2,887,663
	5,646,828	4,331,760

4. INTANGIBLE ASSETS

	Computer software	
	2007 RM	2006 RM
Cost		
At 1 January	**158,292**	147,172
Additions	**10,134**	13,550
Write-offs	**(1,080)**	(2,430)
At 31 December	**167,346**	158,292
Accumulated Amortisation and Impairment		
At 1 January	**90,875**	72,424
Charge for the year	**23,289**	20,881
Write-offs	**(1,080)**	(2,430)
At 31 December	**113,084**	90,875
Net Carrying Amount	**54,262**	67,417

5. DEFERRED TAX (LIABILITIES)/ASSETS

	2007 RM	2006 RM
At 1 January	**18,760**	36,636
Recognised in the income statement (Note 20)	**(98,417)**	(17,876)
At 31 December	**(79,657)**	18,760

5. DEFERRED TAX (LIABILITIES)/ASSETS (Contd)

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

2007	Accelerated capital allowances RM	Total RM
Deferred Tax Liabilities		
At 1 January 2007	**(325,562)**	**(325,562)**
Recognised in the income statement	**5,835**	**5,835**
At 31 December 2007	**(319,727)**	**(319,727)**

	Receivables RM	Staff retirement gratuities RM	Others RM	Total RM
Deferred Tax Assets				
At 1 January 2007	**335,121**	**–**	**9,201**	**344,322**
Recognised in the income statement	**(104,657)**	**–**	**405**	**(104,252)**
At 31 December 2007	**230,464**	**–**	**9,606**	**240,070**
Net deferred tax liabilities				**(79,657)**

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)

5. DEFERRED TAX (LIABILITIES)/ASSETS (Contd)

	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
Net deferred tax assets				18,760

6. INVESTMENT PROPERTIES

	2007 RM	2006 RM
Cost		
1 January/31 December	**1,006,700**	1,006,700
Accumulated Depreciation		
1 January	**166,543**	141,901
Charged for the year	**24,442**	24,642
31 December	**190,985**	166,543
Net Carrying Amount	**815,715**	840,157
Fair Value	**1,232,000**	1,015,000

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

7. INVESTMENTS

	2007 Carrying value RM	2007 Market/ indicative value* RM	2006 Carrying value RM	2006 Market/ indicative value* RM
Malaysian Government Securities ("MGS")	**17,057,490**		14,577,760	
Amortisation of premiums net of accretion of discounts	**(165,508)**		(1,322,885)	
	16,891,982	**16,844,935**	13,254,875	13,351,850
Government Investment Issue ("GII")	**10,127,000**		10,127,000	
Amortisation of premiums net of accretion of discounts	**(21,954)**		(1,972)	
	10,105,046	**10,164,000**	10,125,028	10,225,000
Quoted in Malaysia:				
Shares, warrants and other securities (N1)	**4,251,725**		786,105	
Provision for diminution in value	**(229,731)**		(74,955)	
	4,021,994	**4,021,994**	711,150	711,150
Unit trusts (N2)	**14,752,116**	**14,883,073**	9,440,694	9,502,614
Unquoted:				
Cagamas bonds	**–**	**–**	5,014,500	5,000,500
Corporate bonds (N3)	**40,726,861**	**40,632,141**	32,364,391	33,432,340
	40,726,861	**40,632,141**	37,378,891	38,432,840
Amortisation of premiums net of accretion of discounts	**(125,989)**	**–**	692,543	–
	40,600,872	**40,632,141**	38,071,434	38,432,840

7. INVESTMENTS (Contd)

	2007		2006	
	Carrying value RM	Market/ indicative value* RM	Carrying value RM	Market/ indicative value* RM
Fixed and call deposits with licensed financial institutions:				
Commercial banks (N4)	**90,711,307**		114,941,506	
Other financial institutions (N5) and (N6)	**26,074,858**		38,578,958	
	116,786,165		153,520,464	
Total investments	**203,158,175**		225,123,645	

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

N1 Includes an amount of RM4,076,413 (2006: RM786,105) managed by a fellow subsidiary.

N2 Includes an amount of RM7,178,279 (2006: RM3,797,498) managed by a fellow subsidiary.

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 RM25,406,734 (2006: RM39,720,495) placed with a subsidiary of a substantial shareholder of the holding company and an amount of RM212,000 (2006: Nil) managed by a fellow subsidiary.

N5 Includes an amount of RM981,240 (2006: RM16,049,004) managed by a fellow subsidiary.

N6 Other financial institutions are investment banks and development financial institutions.

The maturity structure of investments, at cost (excluding equity investments 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
2007					
MGS	**2,384,000**	**–**	**4,663,590**	**10,009,900**	**17,057,490**
GII	**–**	**4,969,500**	**5,157,500**	**–**	**10,127,000**
Unquoted corporate bonds	**1,541,850**	**10,981,535**	**8,072,520**	**20,130,956**	**40,726,861**
Fixed and call deposits	**116,786,165**	**–**	**–**	**–**	**116,786,165**
	120,712,015	**15,951,035**	**17,893,610**	**30,140,856**	**184,697,516**

7. INVESTMENTS (Contd)

	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

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)	
	2007	**2006**	**2007**	**2006**
Commercial banks	**3.76**	3.77	**242**	240
Other financial institutions	**3.58**	3.52	**56**	48

8. LOANS

	2007 RM	2006 RM
Staff loans:		
Secured	**3,323,198**	3,226,340
Unsecured	**80,939**	78,628
	3,404,137	3,304,968
Receivable after 12 months	**2,764,351**	2,716,849

The weighted average effective interest rate for staff loans as at 31 December 2007 was 3.03% (2006: 2.80%) per annum on the basis of monthly rest.

9. RECEIVABLES

	2007 RM	2006 RM
Trade receivables:		
Due premiums including agents/brokers and co-insurers balances	**16,972,206**	20,654,768
Allowance for doubtful debts	**(1,693,247)**	(3,050,916)
	15,278,959	17,603,852
Amount due from reinsurers/ceding companies	**3,535,589**	2,730,063
Allowance for doubtful debts	**(533,466)**	(652,072)
	3,002,123	2,077,991
Total trade receivables	**18,281,082**	19,681,843
Other receivables:		
Other receivables, deposits and prepayments	**8,849,563**	7,785,736
Income due and accrued	**2,329,089**	1,872,984
Total other receivables	**11,178,652**	9,658,720
Total receivables	**29,459,734**	29,340,563

10. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2007	2006	2007 RM	2006 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

11. UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, Aviation and Transit RM	Misc. Medical & Health RM	Misc. Total Others RM	Misc. RM	Total RM
2007							
At 1 January	**4,924,158**	**14,136,767**	**247,522**	**15,982,998**	**7,413,688**	**23,396,686**	**42,705,133**
Increase/ (decrease)	**(232,527)**	**(49,415)**	**68,452**	**500,127**	**(367,175)**	**132,952**	**(80,538)**
At 31 December	**4,691,631**	**14,087,352**	**315,974**	**16,483,125**	**7,046,513**	**23,529,638**	**42,624,595**
2006							
At 1 January	4,309,798	13,597,846	422,718	12,991,522	6,553,400	19,544,922	37,875,284
Increase/ (decrease)	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

12. PROVISION FOR OUTSTANDING CLAIMS

	2007 RM	2006 RM
Provision for outstanding claims	**126,672,209**	96,707,082
Recoverable from reinsurers	**(55,222,820)**	(22,227,912)
Net outstanding claims	**71,449,389**	74,479,170

13. PAYABLES

	2007 RM	2006 RM
Trade payables:		
Amount due to reinsurers/ceding companies	**3,392,262**	3,906,257
Amount due to brokers, co-insurers and insureds	**3,116,340**	2,916,502
	6,508,602	6,822,759
Other payables:		
Other payables and accrued liabilities	**5,555,334**	6,660,535
Total payables	**12,063,936**	13,483,294

14. STAFF RETIREMENT GRATUITIES

	2007 RM	2006 RM
At 1 January	–	234,037
Provision for the year		10,138
	–	244,175
Transfer to EPF/benefits paid during the year	–	(244,175)
At 31 December	–	–

15. DIVIDENDS

	Dividends in respect of Year		Dividends Recognised in Year	
	2007 RM	2006 RM	2007 RM	2006 RM
Interim dividends of 40.0 sen per share less 27% taxation, on 100,000,000 ordinary shares (2006: 15.0 sen per share less 28% taxation)	**29,200,000**	10,800,000	**29,200,000**	10,800,000

The directors do not propose any final dividend for the financial year ended 31 December 2007.

16. OPERATING REVENUE

	Shareholder's fund RM	General business RM	Total RM
2007			
Gross premiums	**–**	**130,418,254**	**130,418,254**
Investment income (Note 16a)	**570,648**	**8,527,792**	**9,098,440**
	570,648	**138,946,046**	**139,516,694**
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

16a. INVESTMENT INCOME

	Shareholder's fund		General business	
	2007	**2006**	**2007**	**2006**
	RM	**RM**	**RM**	**RM**
Interest income from:				
MGS	**–**	–	**1,524,275**	1,379,675
Corporate bonds	**–**	–	**2,301,298**	1,598,790
Cagamas bonds	**–**	–	**33,133**	295,157
Fixed and call deposits	**546,648**	509,408	**4,555,319**	4,168,011
Gross dividends/ distribution from:				
Investments quoted in Malaysia				
– Shares	**–**	–	**391,279**	702,933
– Unit trusts	**–**	–	**209,585**	338,078
Rental of properties	**24,000**	24,000	**53,088**	51,000
Amortisation of premiums, net of accretion of discounts	**–**	–	**(540,185)**	(378,779)
	570,648	533,408	**8,527,792**	8,154,865

17. OTHER OPERATING INCOME/(EXPENSES)

	Shareholder's fund		General business	
	2007	**2006**	**2007**	**2006**
	RM	**RM**	**RM**	**RM**
Other operating income:				
Gain on disposal of investments	**–**	–	**5,148,641**	4,777,993
Gain on disposal of property and equipment	**–**	–	**34,068**	42,327
Write back of provision for diminution in value of investments	**–**	–	**–**	4,264,863
Interest income from staff loans	**106,554**	118,765	**–**	–
Sundry income	**–**	–	**251,598**	296,201
	106,554	118,765	**5,434,307**	9,381,384

17. OTHER OPERATING INCOME/(EXPENSES) (Contd)

	Shareholder's fund		General business	
	2007 RM	2006 RM	2007 RM	2006 RM
Other operating expenses:				
Loss on disposal of investments	–	–	(941,902)	(5,766,872)
Provision for diminution in value of investments	–	–	(154,776)	–
Depreciation of investment properties	(3,500)	(3,500)	(20,942)	(21,142)
Write off of property and equipment	–	–	(4,682)	(5,688)
Interest expenses	–	–	(115)	(319)
Sundry expenses	–	–	(2,144)	(41,310)
	(3,500)	(3,500)	(1,124,561)	(5,835,331)
Net operating income	103,054	115,265	4,309,746	3,546,053

18. MANAGEMENT EXPENSES

	Shareholder's fund		General business	
	2007 RM	2006 RM	2007 RM	2006 RM
Staff costs:				
Salaries, bonus, allowances and other related costs	–	–	14,139,155	13,265,577
EPF	–	–	1,953,195	1,826,457
Provision for staff retirement gratuities	–	–	–	10,138
Short-term accumulating compensated absences	–	–	2,868	26,152
Directors' fees (Note 19)	–	–	160,500	135,500
Auditors' remuneration				
Auditors' fee	–	–	67,000	67,000
Others	–	–	9,000	9,000
Bad debts recovered net of write-off	–	–	(686,223)	(955,063)
Office rental	–	–	1,563,190	1,677,095
Office equipment rental	–	–	201,850	188,420
Depreciation of property and equipment	–	–	826,631	1,117,503
Amortisation of intangible assets	–	–	23,289	20,881
Other expenses	95,089	90,136	7,208,239	7,450,727
	95,089	90,136	25,468,694	24,839,387

19. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

	2007 RM	2006 RM
Non-executive directors:		
Fees	**160,500**	135,500

The remuneration attributable to the Chief Executive Officer of the Company included in staff costs in Note 18 amounted to RM520,300 (2006: RM471,580). The estimated monetary value of benefits-in-kind not included therein was RM10,874 (2006: RM10,912).

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

	Number of directors	
	2007	2006
Non-executive directors:		
Below RM50,000	**5**	5

20. TAXATION

	2007 RM	2006 RM
Income tax:		
Malaysian income tax	**3,642,861**	2,582,662
Foreign tax on foreign dividend received	**–**	2,328
Under provision in respect of prior years	**687,561**	640,622
	4,330,422	3,225,612
Deferred tax relating to origination and reversal of temporary differences (Note 5)	**98,417**	17,876
Tax expense for the year	**4,428,839**	3,243,488

Domestic income tax is calculated at the Malaysian statutory tax rate of 27% (2006: 28%) on the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 26% from the current year's rate of 27%, effective year of assessment 2008 and to 25% effective year of assessment 2009. The computation of deferred tax as at 31 December 2007 has reflected these changes.

20. TAXATION (Contd)

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:

	2007 RM	2006 RM
Profit before taxation	**14,462,959**	14,287,925
Taxation at Malaysian statutory income tax rate of 27% (2006: 28%)	**3,904,999**	4,000,619
Effect of different tax rate in a foreign country	**–**	(931)
Expenses not deductible for tax purposes	**129,001**	89,589
Income not subject to tax	**(372,917)**	(1,434,853)
Under provision of income tax in prior years	**687,561**	640,622
Under/(over) provision of deferred tax in prior years	**77,132**	(50,865)
Effect of changes in tax rates on opening balance of deferred tax	**3,063**	(693)
Tax expense for the year	**4,428,839**	3,243,488

Presently, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 of Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act 2007. As at 31 December 2007, the Company has sufficient credit in the Section 108 balance and tax exempt income to pay franked dividends out of its entire retained earnings. As at 31 December 2007, the Company has tax exempt income available for distribution of approximately RM1,741,000 (2006: RM1,715,000).

21. NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, Aviation and Transit RM	Misc. Medical & Health RM	Misc. Others RM	Misc. Total Misc. RM	Total RM
2007							
Gross claims paid less salvage	**11,307,419**	**24,529,698**	**1,363,967**	**29,646,353**	**11,983,105**	**41,629,458**	**78,830,542**
Reinsurance recoveries	**(5,089,922)**	**(1,656,347)**	**(751,473)**	**(1,188,723)**	**(4,379,263)**	**(5,567,986)**	**(13,065,728)**
Net claims paid	**6,217,497**	**22,873,351**	**612,494**	**28,457,630**	**7,603,842**	**36,061,472**	**65,764,814**
Net outstanding claims:							
At 31 December	**7,303,135**	**42,695,467**	**1,424,267**	**5,824,135**	**14,202,385**	**20,026,520**	**71,449,389**
At 1 January	**(6,374,092)**	**(45,723,487)**	**(1,875,912)**	**(5,445,156)**	**(15,060,523)**	**(20,505,679)**	**(74,479,170)**
Net claims incurred	**7,146,540**	**19,845,331**	**160,849**	**28,836,609**	**6,745,704**	**35,582,313**	**62,735,033**
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

22. 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 RM10,034,120 (2006: RM11,044,437) over the number of shares in issue during the year of 100,000,000 (2006: 100,000,000). There is no dilution in earnings per share as there were no dilutive potential ordinary shares as at 31 December 2007.

23. SEGMENT INFORMATION ON CASH FLOW

	Shareholder's fund RM	General business RM	Total RM
2007			
Cash flows from:			
Operating activities	**29,399,955**	**(145,684)**	**29,254,271**
Investing activities	**–**	**(623,420)**	**(623,420)**
Financing activities	**(29,200,000)**	**–**	**(29,200,000)**
	199,955	**(769,104)**	**(569,149)**
Net decrease in cash and cash equivalents:			
At beginning of financial year	**(152,416)**	**(2,508,776)**	**(2,661,192)**
At end of financial year	**352,371**	**1,739,672**	**2,092,043**
	199,955	**(769,104)**	**(569,149)**
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)

24. CAPITAL COMMITMENTS

	2007 RM	2006 RM
Approved and contracted for:		
Property and equipment	**7,279**	19,942

25. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) In addition to related party disclosures detailed elsewhere in the financial statements, the Company had the following significant transactions and balances with related parties:

	Significant Transactions		Carrying Value	
	2007 RM	2006 RM	2007 RM	2006 RM
Holding company:				
Management fees paid for shared services	**(1,568,616)**	(1,415,401)	**–**	–
Fellow subsidiaries:				
Insurance premium received	**206,866**	287,294	**–**	–
Claims paid	**(55,175)**	(81,071)	**–**	–
Insurance commission paid	**(572,533)**	(456,616)		
Rental expense paid	**(896,182)**	(1,200,399)	**–**	–
Rental and utility deposits	**–**	–	**262,052**	351,619
Investment management fees paid	**(80,953)**	(145,865)	**–**	–
Funds under management	**–**	–	**12,447,932**	20,632,607
Substantial shareholders of the holding company:				
Insurance premium received	**165,502**	108,480	**–**	–
Claims paid	**–**	(146,929)	**–**	–
Insurance commission paid	**(68,309)**	–	**–**	–
Subsidiaries of substantial shareholders of the holding company:				
Insurance premium received	**354,663**	283,389	**–**	–
Insurance premium paid	**(175,258)**	(78,085)	**–**	–
Insurance commission paid	**(78,900)**	–	**–**	–
Reinsurance premium received	**–**	128,404	**–**	–
Current account and deposits	**–**	–	**27,303,452**	42,192,184
Income from fixed and call deposits received and receivable	**1,293,558**	908,012	**251,430**	240,404
Associated companies of substantial shareholders of the holding company:				
Insurance premium received	**202,215**	196,635	**–**	–
Claims paid	**(58,013)**	(132,802)	**–**	–
Purchase of motor vehicle	**(199,590)**	–	**–**	–
Key management of the Company:				
Insurance premium received	**50,007**	–	**–**	–
Secured staff loans outstanding	**–**	–	**50,800**	65,200

25. SIGNIFICANT RELATED PARTY DISCLOSURES (Contd)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 RM	2006 RM
Short-term employee benefits	**1,469,645**	1,287,332
Defined contribution plan	**199,245**	171,396
	1,668,890*	1,458,728*

* Includes compensation payable to key management personnel as at balance sheet date of RM517,948 (2006: RM415,535).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company includes the directors, Chief Executive Officer, Senior General Manager, General Manager and Head of Finance.

26. 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, MGS, Cagamas bonds, GII 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.

(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.

26. FINANCIAL INSTRUMENTS (Contd)

(d) Market Risk

The Company's investments in MGS, 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.

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 and call 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.

(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 2007:			
Investments:	7		
MGS		**16,891,982**	**16,844,935**
GII		**10,105,046**	**10,164,000**
Quoted shares, warrants and other securities		**4,021,994**	**4,021,994**
Quoted unit trusts		**–**	**14,883,073**
Unquoted corporate bonds		**40,600,872**	**40,632,141**
At 31 December 2006:			
Investments:	7		
MGS		13,254,875	13,351,850
GII		10,125,028	10,225,000
Quoted shares, warrants and other securities		711,150	711,150
Quoted unit trusts		–	9,502,614
Cagamas bonds		5,000,714	5,000,500
Unquoted corporate bonds		33,070,720	33,432,340

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

26. FINANCIAL INSTRUMENTS (Contd)

(f) Fair Values (Contd)

(i) Cash and Cash Equivalents and Receivables/Payables

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

(ii) 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.

27. SUBSEQUENT EVENT

On 4 January 2008, the Company's holding company, PacificMas Berhad ("PacificMas"), announced that it had received a Notice of Conditional Take-Over Offer from CIMB Investment Bank Berhad and OCBC Advisers (Malaysia) Sdn Bhd, on behalf of OCBC Capital (Malaysia) Sdn Bhd ("OCSB") (formerly known as OSPL Holdings Sdn Bhd), to acquire all the voting shares in PacificMas not already owned by OCSB ("Offer Shares") for a cash consideration of RM4.30 per Offer Share ("Offer"). The ultimate holding company of OCSB is Oversea-Chinese Banking Corporation Limited, a substantial shareholder of PacificMas. The Notice of Conditional Take-Over Offer was posted to shareholders of PacificMas on 9 January 2008.

On 14 January 2008, the Board of PacificMas appointed AmInvestment Bank Berhad as the independent adviser to advise the Board and shareholders of PacificMas on the Offer. The appointment of AmInvestment Bank Berhad was approved by the Securities Commission ("SC").

On 25 January 2008, the Offer Document in relation to the Offer was posted to the shareholders of PacificMas by OCSB. The Offer is conditional upon the following:

(i) OCSB receiving valid acceptances (on or before the close of the Offer) which would result in OCSB holding in aggregate, together with such PacificMas Shares that are already acquired, held or entitled to be acquired or held by OCSB, if any, more than 50% of the voting shares of PacificMas.

(ii) approval from the Ministry of Finance on the recommendation of Bank Negara Malaysia ("BNM") for the acquisition of the PacificMas Shares pursuant to the Offer. The application to BNM has been made on 17 January 2008 and the decision from BNM is still pending.

(iii) approvals from the SC (under the Guidelines on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests issued by the Foreign Investment Committee) for the acquisition of the Offer Shares by OCSB under the Offer and the proposed transfer of OCBC Securities Private Limited's entire shareholding in OCSB to Federal Securities Private Limited. The SC approved this application on 11 February 2008; and

27. SUBSEQUENT EVENT (Contd)

(iv) approval from the SC (through the SC's Licensing Department) for the change in the direct and/or indirect shareholdings of PacificMas, being the controller of Pacific Mutual Fund Bhd and PacificMas Asset Management Sdn Bhd, as a result of the acquisition of the Offer Shares pursuant to the Offer (if applicable). The application to the SC (through the Licensing Department) was made on 18 January 2008 and the decision from the SC is still pending.

failing which the Offer shall lapse and all acceptances shall be returned to the shareholders of PacificMas who have accepted the Offer.

On 4 February 2008, PacificMas had posted the Independent Advice Circular to its shareholders.

BRANCH NETWORK

HEAD OFFICE

KUALA LUMPUR
Level 6, Menara Prudential
No. 10, Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : 03 - 2176 1188 / 2072 6633
Fax : 03 - 2078 4928

SENIOR MANAGEMENT

Chief Executive Officer
Sonny Tan Siew Hock
Email : sonnytan@pacificinsurance.com.my
DID Line : 03 - 2176 1088

Senior General Manager
Ong Boon Hock
Email : bhong@pacificinsurance.com.my
DID Line : 03 - 2176 1089

General Manager
Neoh Guan Hup
Email : ghneoh@pacificinsurance.com.my
DID Line : 03 - 2176 1090

HEAD OFFICE PRODUCTION UNITS

BROKING
Michael Choo Heng Sai
Email : mhschoo@pacificinsurance.com.my
DID Line: 03 - 2176 1096

DIRECT BUSINESS & CUSTOMER CARE
Tay Yew Lean
Email : yltay@pacificinsurance.com.my
DID Line: 03 - 2176 1123

KL AGENCIES
Khoo Kin Mun
Email : kmkhoo@pacificinsurance.com.my
DID Line: 03 - 2176 1120

NORTHERN REGION

Alor Setar
Steven Yeoh Kheng Beng
Tingkat 1, No: 38 Jalan Putra
05100 Alor Setar, Kedah
Tel : 04 - 732 4377 / 4378
Fax : 04 - 731 5869
Email: kbyeoh@pacificinsurance.com.my

Pulau Pinang
Yeoh Thean Khee
Unit 1-02, Menara Boustead
No. 39, Jalan Sultan Ahmad Shah
10050 Pulau Pinang
Tel : 04 - 228 1531 /1534 / 1535 / 1536
Fax : 04 - 228 1529 / 229 7849
Email: tkyeoh@pacificinsurance.com.my

Ipoh
Jasbir Singh a/l Sarjit Singh
No. 12B, 2nd Floor
Persiaran Greentown 1
Pusat Perdagangan Greentown
30450 Ipoh, Perak
Tel : 05 - 241 9933 / 9923 / 8823
Fax : 05 - 241 9393
Email: jasbir@pacificinsurance.com.my

Taiping
Patrick Ong Seaw Tee
31 Jalan Medan Taiping 2
Medan Taiping
34000 Taiping, Perak
Tel : 05 - 806 3388
Fax : 05 - 806 2666
Email: pstong@pacificinsurance.com.my

Teluk Intan
Koo Wan Choong
Ground Floor, No. 8-G, Jalan Intan 4
Bandar Baru
36000 Teluk Intan, Perak
Tel : 05 - 622 8968
Fax : 05 - 621 2686
Email: wckoo@pacificinsurance.com.my

CENTRAL REGION

Petaling Jaya
Ford Low Si Hume
70 Jalan SS 2/67
47300 Petaling Jaya, Selangor
Tel : 03 - 7877 5111
Fax : 03 - 7877 2171
Email: fshlow@pacificinsurance.com.my

Klang
Tan Bee Bee
46 Jalan Batu Unjur Satu
Bayu Perdana
41200 Klang, Selangor
Tel : 03 - 3324 5781 / 5776 / 5779
Fax : 03 - 3324 5773
Email: bbtan@pacificinsurance.com.my

SOUTHERN REGION

Melaka
Tan Ming Guan
624 & 624A , Jalan Melaka Raya 10
Taman Melaka Raya, 75000 Melaka
Tel : 06 - 284 5235 / 5245 / 5825
Fax : 06 - 284 5528
Email: mgtan@pacificinsurance.com.my

Muar
Yap Yong Seng
Ground Floor, 41-22
Jalan Abdul Rahman
84000 Muar, Johor
Tel : 06 - 954 3322
Fax : 06 - 954 2121
Email:ysyap@pacificinsurance.com.my

Batu Pahat
Lim Kim Meng
8.01 (8th Floor) Wisma Sing Long
No.9 Jalan Zabedah
83000 Batu Pahat, Johor
Tel : 07 - 434 7516 / 7518 / 7519
Fax : 07 - 434 7521
Email: kmlim@pacificinsurance.com.my

Johor Bahru
Foo Hee Luan
Suite 4.3 Level 04
Menara Pelangi, Jalan Kuning
80400 Johor Bahru, Johor
Tel : 07 - 331 8741 / 9178 / 9179
Fax : 07 - 332 2079
Email: hlfoo@pacificinsurance.com.my

EAST COAST

Kuantan
Lee Foo Hoe
1st Floor, B36 Lorong Tun Ismail 11
Jalan Tun Ismail 1
25000 Kuantan, Pahang
Tel : 09 - 514 2912 / 2881 / 2882
Fax : 09 - 514 2953
Email: fhlee@pacificinsurance.com.my

Kuala Terengganu
Ko Weng Kong
37A, 1st Floor
Jalan Sultan Ismail
20200 Kuala Terengganu
Terengganu
Tel : 09 - 623 2839
Fax : 09 - 622 3839
Email: wkko@pacificinsurance.com.my

EAST MALAYSIA

Kota Kinabalu
James Ka Meng Hai
5th Floor Wisma KTS
Jalan Pantai
88000 Kota Kinabalu, Sabah
Tel : 088 - 233 427 / 292 / 293
Fax : 088 - 232 195
Email: jmhka@pacificinsurance.com.my

Sandakan
Elton Hon Kwok Hing
First Floor, Lot 10, Block 5
Bandar Indah, Mile 4 Labuk Road
90000 Sandakan, Sabah
Tel : 089 - 222 332
Fax : 089 - 223 030
Email: ekhhon@pacificinsurance.com.my

Kuching
Sandra Tang Leh Ping
1st Floor, Lot 212, Section 51
Jalan Ban Hock
93100 Kuching, Sarawak
Tel : 082 - 418 727 / 728
Fax : 082 - 426 011
Email: slptang@pacificinsurance.com.my

Miri
Alexander Akaw
Lot 2523, Ground Floor
Block 5 MCLD
Boulevard Commercial Centre
Jalan Miri Pujut
98000 Miri, Sarawak
Tel : 085 - 410 633 / 420 633
Fax : 085 - 412 632
Email: alexandera@pacificinsurance.com.my

Bintulu
Ling Kwong Yeo
220 Bintulu Parkcity Commerce Square
Jalan Tun Ahmad Zaidi
97000 Bintulu, Sarawak
Tel : 086 - 316 161
Fax : 086 - 310 099
Email: kyling@pacificinsurance.com.my

FOR GENERAL ENQUIRIES

PLEASE CONTACT OUR CUSTOMER SERVICE AT:

Toll-free Hotline : 1 800 88 1629

Customer Service Email Address:
customerservice@pacificinsurance.com.my

VISIT OUR WEBSITE AT :
www.pacificinsurance.com.my

The Pacific Insurance Berhad
(91603-K)

Level 6, Menara Prudential
No.10, Jalan Sultan Ismail
P.O.Box 12490, 50780 Kuala Lumpur
Malaysia
Tel : 03 2176 1188 & 03 2072 6633 Fax : 03 2070 1881
Toll-free : 1800 88 1629
www.pacificinsurance.com.my