

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

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 2005.

PRINCIPAL ACTIVITY

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

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

RESULTS

	RM
Net profit for the year	<u>9,690,269</u>

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 paid by the Company since 31 December 2004 was as follows:

In respect of the financial year ended 31 December 2005	
Interim dividend of 12.5 sen per share less 28% taxation, paid on 20 December 2005	<u>9,000,000</u>

The directors do not propose any final dividend for the financial year ended 31 December 2005.

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, Keong Choon Keat will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

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

CORPORATE GOVERNANCE

(a) Board Responsibility and Oversight

Board Responsibility

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

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

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

The Company's directors have attended the Corporate Directors' Training Programme conducted under the auspices of the Companies Commission of Malaysia or the mandatory training programmes, namely the Mandatory Accreditation Programme and Continuing Education Programme prescribed by Bursa Malaysia Securities Berhad (for listed companies). Directors are promptly updated with the policy and administrative changes or new regulations issued by BNM and relevant professional bodies. On an ongoing basis, directors are kept informed through relevant training programmes, briefings and presentations on subjects such as the proposed Goods & Service Tax, new accounting standards, Risk-Based Capital framework and Takaful, to assist them to keep abreast with the developments in the market place.

Board Balance and Meetings

The Board comprises a non-independent non-executive Chairman, three independent non-executive directors and one non-independent non-executive director. On a yearly basis, the directors are subject to an internal declaration to review their status of compliance with Part XII of the Insurance Regulations, 1996 on the minimum criteria of a "fit and proper person". In accordance with the Insurance Act, 1996, all directors are appointed 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	12/12	100
Keong Choon Keat	12/12	100
Lai Wan	11/12	92
Ng Hon Soon	12/12	100

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 Chairman of the respective committee reports to the Board on matters discussed at the meetings of the committee.

(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 10 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)	10/10	100
Keong Choon Keat	10/10	100
Lai Wan	9/10	90

The AC’s terms of reference which have been revised to comply with JPI/GPI 13: Guidelines on Audit Committee and Internal Audit Departments for Insurance Companies (revised 24 December 2004) include the reinforcement of the independence and objectivity of both the internal and external audit functions and the specification of its scope and results. The AC performs reviews on the findings of the internal/external auditors and 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 policies and the maintenance of a sound system of internal control to safeguard shareholders’ investment and the Company’s assets. In addition, the AC approves the annual external Audit Plan as well as makes recommendation to the Board on the appointment and reappointment of the external auditors. The AC’s review and approval are also sought for any outsourcing of non-audit services and recurrent related party transactions undertaken by the Company.

(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	3/4	75

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

Nomination and Remuneration Committees

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

(i) Nomination Committee

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

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

Choi Siew Hong
Non-Independent Non-Executive Director

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

Keong Choon Keat
Independent Non-Executive Director

Wong Nang Jang
Non-Independent Non-Executive Director

The NC met 3 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)	3/3	100
Choi Siew Hong	3/3	100
Kol. (B) Dato' Ir. Cheng Wah	3/3	100
Keong Choon Keat	3/3	100
Wong Nang Jang	3/3	100

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

With regard to retiring directors, the NC reviews the suitability and competencies and contributions of directors for re-election and re-appointment before recommending them to the Board for submission to BNM and 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 succession plan as and when appropriate.

(ii) Remuneration Committee

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

Keong Choon Keat (Chairman)

Independent Non-Executive Director

Choi Siew Hong

Non-Independent Non-Executive Director

Sharriffudin Ahmad Taff

Non-Independent Non-Executive Director

Wong Nang Jang

Non-Independent Non-Executive Director

The RC met 2 times during the financial year and the attendance of the members was as follows:

Name	Number of meetings	
	Attended	%
Keong Choon Keat	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.

(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.

None of the directors and senior management of the Company have any conflict of interest as referred to in Sections 54 and 55 of the Insurance Act, 1996.

(c) Corporate Independence

All material related party transactions have been disclosed in the audited financial statements in accordance with Financial Reporting Standard ("FRS") 124: Related Party Disclosures. All related party transactions are tabled at the AC for review and approval.

(d) Internal Controls and Operational Risk Management

The Board has the overall responsibility to ensure the maintenance of internal control system and risk management framework for the Company in order to provide reasonable assurance for effective and efficient operations, internal financial controls and compliance with laws and regulations. The Board acknowledges that there is a continuous process present for identifying, evaluating and managing the significant risks faced by the Company during the financial year under review. The Board requires the management to maintain a risk management framework for identifying, evaluating, monitoring and managing the risks assumed in order to achieve the Company's business objectives. 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, 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 ensuring that the appropriate action plans were followed up.
- (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.

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

- (i) 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. During the financial year, the company-wide Business Resumption and Contingency Plan ("BRCP") was approved by the Board on 24 March 2005, pursuant to the requirement of BNM's GPIS 1: Guidelines on Management of IT Environment. The BRCP serves to ensure that critical resources and services of the Company are available in the event of system failures or business interruptions. It also aims to ensure that possible disruptions to operations and services are mitigated to an acceptable level through a combination of well-planned contingency and recovery controls. The Company had successfully tested the BRCP and the related IT Disaster Recovery Plan during the year.
- (ii) Information Technology Steering Committee ("ITSC") has the responsibility to monitor the overall efficiency, performance and effectiveness of IT services. The ITSC meets once in two months to review the Company's IT plans, progress of action plans, as well as investment in IT resources and to make any recommendations thereof when necessary. The IT plans formulated during the financial year included the short-term and medium-term IT plans which are aligned to the business direction of the Company.
- (iii) The Anti-Money Laundering and Counter-Financing of Terrorism ("AML/CFT") – Management Committee comprising the Chief Executive Officer, Compliance Officers at the Head Office as well as Branches, and key senior officers of the Company is in place to manage the risk and areas related to AML/CFT.
- (iv) The Credit Control Committee reviews credit risk, trade receivables' recovery and reconciliation position with third parties. The committee also considers and implements appropriate measures to improve existing credit control procedures and practices.

The Company operates in a business environment that is subject to regulatory purview and operational compliance requirement and reporting. The Company Secretary and senior management kept the Board apprised of new laws and regulations 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 had 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 required regarding the adequacy and integrity of the systems of internal control. Whenever required, certain audit assignments were also outsourced to international accounting firms. The Group Internal Audit Department reported directly to the AC. The functions and responsibilities of the AC and the internal audit function were in accordance with the Group's Internal Audit Charter and the BNM's Guidelines JPI/GPI 13: Guidelines on Audit Committee and Internal Audit Departments for Insurance Companies.

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

The internal audit function independently reviewed the risk exposures and control processes on governance, operations and information systems implemented by the management. During the financial year, the internal audit function reported 10 times to the AC. The internal audit reports were tabled at the AC meetings, during which the findings were reviewed with the management. Internal auditors conducted follow-up actions with the management to ensure that recommendations to improve controls were implemented. The AC met with the external auditors at least twice a year without the management's presence to discuss problems, issues and concerns arising from 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, provided reasonable assurance that necessary control procedures were in place. The AC submitted regular reports of their deliberations to the Board 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 had taken the appropriate steps to ensure that all insurance policies issued or delivered to new policyholders contain the necessary information to alert them of the existence of the Financial Mediation Bureau and BNM's Consumer Services Bureau. The bureaus were set up with the view to provide alternative avenues for the policyholders to seek redress against any occurrence of unfair market practices.

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

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

(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 Malaysian Accounting Standards Board ("MASB") Approved Accounting 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 or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 17 to the financial statements and the financial statements of its related corporations or the fixed salaries and benefits of full-time employees of related corporations) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

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

	Number of Ordinary Shares of RM1 each			
	1 January 2005	Bought	Sold	31 December 2005
Holding company - PacificMas Berhad				
Choi Siew Hong				
- direct interest	87,000	114,000 *	-	201,000
- indirect interest	114,000	-	114,000 *	-

	Number of Ordinary Shares of RM1 each			
	1 January 2005	Bought	Sold	31 December 2005
Tan Sri Dato' Nasrudin bin Bahari				
- direct interest	3,000	-	3,000	-
- indirect interest	1,500	-	-	1,500
Lai Wan				
- direct interest	43,000	-	-	43,000
- indirect interest	3,000	-	-	3,000
Ng Hon Soon				
- indirect interest	5,000	-	-	5,000

* Transferred from indirect interest to direct interest.

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

OTHER STATUTORY INFORMATION

- (a) Before the balance sheet and income statement of the Company were made out, the directors:
- (i) took reasonable steps to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of allowance for doubtful debts, and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) took reasonable steps to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.

- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

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

SIGNIFICANT EVENT

The significant event of the Company is disclosed in Note 26 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

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia
21 February 2006

**THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)**

**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 17 to 48 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2005 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

CHOI SIEW HONG

TAN SRI DATO' NASRUDIN BIN BAHARI

Kuala Lumpur, Malaysia
21 February 2006

**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 17 to 48 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 21 February 2006) TAN SIEW HOCK

Before me,

91603-K

**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 17 to 48. These financial statements are the responsibility of the Company's directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Company as at 31 December 2005 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
AF: 0039
Chartered Accountants

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

Kuala Lumpur, Malaysia
21 February 2006

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	2005 RM	2004 RM
ASSETS			
Property and equipment	3	2,713,696	2,938,210
Deferred tax assets	4	36,636	191,817
Investments	5	219,992,096	226,640,423
Loans	6	3,761,838	4,016,506
Receivables	7	30,434,677	29,594,524
Cash and bank balances		4,166,808	8,114,478
TOTAL ASSETS		<u>261,105,751</u>	<u>271,495,958</u>
LIABILITIES			
Provision for outstanding claims	8	74,675,771	88,524,998
Payables	9	13,835,754	14,787,070
Tax payable		510,164	339,996
Staff retirement gratuities	10	234,037	224,635
TOTAL LIABILITIES		<u>89,255,726</u>	<u>103,876,699</u>
Unearned premium reserves	11	<u>37,875,284</u>	<u>34,334,787</u>
SHAREHOLDER'S FUND			
Share capital	12	100,000,000	100,000,000
Retained profits		33,974,741	33,284,472
		<u>133,974,741</u>	<u>133,284,472</u>
TOTAL LIABILITIES AND SHAREHOLDER'S FUND		<u>261,105,751</u>	<u>271,495,958</u>

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	Share capital RM	Distributable retained profits RM	Total RM
At 1 January 2004		100,000,000	28,267,334	128,267,334
Net profit for the year		-	13,657,138	13,657,138
Dividends	13	-	(8,640,000)	(8,640,000)
At 31 December 2004		<u>100,000,000</u>	<u>33,284,472</u>	<u>133,284,472</u>
At 1 January 2005		100,000,000	33,284,472	133,284,472
Net profit for the year		-	9,690,269	9,690,269
Dividends	13	-	(9,000,000)	(9,000,000)
At 31 December 2005		<u>100,000,000</u>	<u>33,974,741</u>	<u>133,974,741</u>

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 RM	2004 RM
Operating revenue	14	<u>119,761,626</u>	<u>106,645,493</u>
Shareholder's fund:			
Investment income	14a	732,741	979,667
Other operating income	15	106,853	151,374
Management expenses	16	(78,706)	(315,310)
Surplus transferred from			
General Insurance Revenue Account		<u>12,656,117</u>	<u>17,638,757</u>
Profit before taxation		13,417,005	18,454,488
Taxation	19	<u>(3,726,736)</u>	<u>(4,797,350)</u>
Net profit for the year		<u>9,690,269</u>	<u>13,657,138</u>
Earnings per share (sen)	21		
Basic		<u>9.7</u>	<u>13.7</u>

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

GENERAL INSURANCE REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

Note	Fire		Motor		Marine, Aviation and Transit		Medical & Health		Miscellaneous ("Misc.")				Total			
	2005	2004	2005	2004	2005	2004	2005	2004	Others	Total Misc.		2005	2004	2005	2004	
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	
Operating revenue	14														119,028,885	105,665,826
Gross premiums	19,531,926	17,834,938	31,143,283	23,038,146	4,144,610	2,897,419	32,423,054	33,891,571	24,211,304	20,567,956	56,634,358	54,459,527	111,454,177	98,230,030		
Reinsurance	(9,053,117)	(7,813,176)	(3,135,504)	(2,758,192)	(2,938,518)	(2,368,124)	(1,972,267)	(5,862,720)	(8,863,855)	(7,385,762)	(10,836,122)	(13,248,482)	(25,963,261)	(26,187,974)		
Net premium	10,478,809	10,021,762	28,007,779	20,279,954	1,206,092	529,295	30,450,787	28,028,851	15,347,449	13,182,194	45,798,236	41,211,045	85,490,916	72,042,056		
Decrease/(increase) in unearned premium reserves	11	531,852	(286,331)	(2,607,118)	752,119	(205,542)	(98,599)	(322,084)	(449,826)	(937,605)	863,258	(1,259,689)	413,432	(3,540,497)	780,621	
Earned premium	11,010,661	9,735,431	25,400,661	21,032,073	1,000,550	430,696	30,128,703	27,579,025	14,409,844	14,045,452	44,538,547	41,624,477	81,950,419	72,822,677		
Net claims incurred	20	(5,489,077)	(3,110,931)	(11,078,762)	(10,874,309)	(466,730)	(165,100)	(17,577,351)	(18,192,455)	(6,383,844)	(6,736,336)	(23,961,195)	(24,928,791)	(40,995,764)	(39,079,131)	
Net commission		(1,327,629)	(1,455,522)	(2,775,894)	(2,029,375)	(17,825)	(9,003)	(3,546,500)	(2,310,741)	(2,986,996)	(2,573,667)	(6,533,496)	(4,884,408)	(10,654,844)	(8,378,308)	
Underwriting surplus before management expenses		4,193,955	5,168,978	11,546,005	8,128,389	515,995	256,593	9,004,852	7,075,829	5,039,004	4,735,449	14,043,856	11,811,278	30,299,811	25,365,238	
Management expenses	16													(22,513,389)	(18,953,539)	
Underwriting surplus														7,786,422	6,411,699	
Investment income	14a													7,574,708	7,435,796	
Other operating (expenses)/income	15													(2,704,697)	3,795,599	
Profit from operations														12,656,433	17,643,094	
Finance costs	18													(316)	(4,337)	
Transfer to Income Statement														12,656,117	17,638,757	

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005	2004
	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	13,417,005	18,454,488
Adjustment for:		
Depreciation of property and equipment	1,158,702	869,105
Gain on disposal of property and equipment	(33,417)	(167,936)
Write off of property and equipment	42,254	26,887
Provision/(write back) for diminution in value of investments	3,232,740	(124,916)
Impairment of investment property	1,700	35,000
Amortisation of premiums, net of accretion of discounts	225,838	178,884
Net gain on disposal of investments	(378,133)	(3,319,947)
Investment income	(8,533,287)	(8,594,347)
Other interest income	(106,853)	(151,374)
Interest expense	2,979	4,543
Bad debts recovered, net of write off	(1,196,190)	(1,267,296)
Provision for staff retirement gratuities	26,926	64,307
Short-term accumulating compensated absences	(21,314)	(64,655)
Net increase/(decrease) in unearned premium reserves	3,540,497	(780,621)
Profit from operations before changes in operating assets and liabilities	11,379,447	5,162,122
Purchase of investments	(67,212,401)	(28,363,568)
Proceeds from disposal/maturity of investments	75,095,156	44,079,646
Decrease/(increase) in loans	254,668	(301,120)
Decrease/(increase) in receivables	528,584	(1,348,231)
(Increase)/decrease in fixed and call deposits	(3,326,017)	3,628,563
(Decrease)/increase in outstanding claims	(13,849,227)	4,806,697
Decrease in payables	(951,633)	(14,763,213)
Cash generated from operations	1,918,577	12,900,896
Investment income received	8,567,773	8,522,275
Other interest received	106,853	151,374
Interest paid	(2,663)	(206)
Income taxes paid	(4,577,345)	(4,155,087)
Staff retirement gratuities paid	(17,524)	(603,106)
Net cash generated from operating activities	5,995,671	16,816,146

	2005	2004
	RM	RM
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(987,237)	(1,193,460)
Proceeds from disposal of property and equipment	44,212	239,004
Net cash used in purchase of business from a fellow subsidiary*	-	(926,698)
Net cash used in investing activities	<u>(943,025)</u>	<u>(1,881,154)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(9,000,000)	(8,640,000)
Finance costs	(316)	(4,337)
Net cash used in financing activities	<u>(9,000,316)</u>	<u>(8,644,337)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,947,670)	6,290,655
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	<u>8,114,478</u>	<u>1,823,823</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u>4,166,808</u>	<u>8,114,478</u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash and bank balances	<u>4,166,808</u>	<u>8,114,478</u>
* Acquisition of business from a fellow subsidiary		
Property and equipment		132,278
Investments		28,782,932
Receivables		5,407,331
Cash and bank balances		5,234,521
Provision for outstanding claims		(27,150,692)
Other payables		(1,685,217)
Unearned premium reserves		<u>(4,559,934)</u>
Total purchase consideration		6,161,219
Cash and bank balances acquired		<u>(5,234,521)</u>
Net cash used in acquisition of business from a fellow subsidiary		<u>926,698</u>

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

THE PACIFIC INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

1. CORPORATE INFORMATION

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

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

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

The number of employees in the Company at the end of the financial year was 233 (2004: 217).

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 21 February 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965, the Insurance Act, 1996, Guidelines/Circulars issued by Bank Negara Malaysia ("BNM") and applicable MASB Approved Accounting Standards in Malaysia.

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

(b) Property and Equipment and Depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(i).

Depreciation of property and equipment 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 premises	2%
Leasehold renovations	50%
Motor vehicles	20%
Furniture and fittings	10%
Office equipment	10%
Computers	20%

Upon the disposal of an item of property and equipment, the difference between the net disposal proceeds and the net carrying amount is charged or credited to the income statement/revenue account.

(c) Investment Properties

Investment properties consist of investments in land and buildings that are not occupied for use by the Company.

Investment properties are treated as long-term investments and are stated at cost and include related and incidental expenditure incurred less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(i). Investment properties are not depreciated.

Upon the disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement/revenue account.

(d) Underwriting Results

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

(i) Premium income

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

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

(ii) Unearned premium reserves

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 bond	10%
- Fire, engineering, aviation and marine hull	15%
- Medical	10 - 15%
- Other classes	20%
- 1/8th method for all other classes of overseas inward treaty business, with a deduction of 20% for commission
- non-annual policies are time-apportioned over the period of the risks

(iii) Provision for claims

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

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

(iv) Acquisition costs

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

(v) Allowance for bad and doubtful debts

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

(e) Other Revenue Recognition

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

(i) Interest income

Interest income is recognised on a time proportion basis.

(ii) Gross dividend income

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

(iii) Rental income

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

(f) 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 income statement/revenue account.

(g) 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, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

(h) Cash and Cash Equivalents

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

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

(i) Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of the net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is charged to the income statement/revenue account immediately. Reversal of impairment losses recognised in prior years is recognised when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

(j) Employee Benefits

(i) Short-term benefits

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

(ii) Defined contribution plan

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

(iii) Staff retirement gratuities

The Company operates an unfunded defined contribution staff retirement gratuities scheme for non-management employees. Provision for staff retirement gratuities is charged to the income statement/revenue account in the year to which they relate.

The provision is an amount contributed by the Company, in addition to the statutory percentage required in respect of EPF and is calculated based on the current emoluments of eligible employees with less than five years length of completed service. The provision for staff retirement gratuities of those eligible employees with more than five years of service is transferred to the EPF upon their resignation if they have not reached retirement age yet.

(k) 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 charged directly to 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) 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 revenue account.

(ii) Quoted investments

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that 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.

(iii) 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 date of purchase to maturity date. Any corporate bond with a lower rating is valued at the lower of cost or net realisable value.

(iv) 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.

(v) Payables

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

(vi) 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.

3. PROPERTY AND EQUIPMENT

	Office premises and leasehold renovations RM	Motor vehicles RM	Furniture, fittings, office equipment and computers RM	Total RM
Cost				
At 1 January 2005	1,517,403	349,221	8,655,333	10,521,957
Additions	261,887	-	725,350	987,237
Disposals	(20,206)	(61,217)	(250,155)	(331,578)
Write-offs	-	(4,318)	(1,744,669)	(1,748,987)
At 31 December 2005	<u>1,759,084</u>	<u>283,686</u>	<u>7,385,859</u>	<u>9,428,629</u>
Accumulated Depreciation				
At 1 January 2005	1,445,071	204,068	5,934,608	7,583,747
Charge for the year	103,059	49,187	1,006,456	1,158,702
Disposals	(20,206)	(65,535)	(235,042)	(320,783)
Write-offs	-	-	(1,706,733)	(1,706,733)
At 31 December 2005	<u>1,527,924</u>	<u>187,720</u>	<u>4,999,289</u>	<u>6,714,933</u>
Net Book Value				
At 31 December 2005	<u>231,160</u>	<u>95,966</u>	<u>2,386,570</u>	<u>2,713,696</u>
At 31 December 2004	<u>72,332</u>	<u>145,153</u>	<u>2,720,725</u>	<u>2,938,210</u>
Details at 1 January 2004				
Cost	1,477,417	390,672	7,338,228	9,206,317
Accumulated depreciation	<u>1,400,361</u>	<u>135,001</u>	<u>5,091,423</u>	<u>6,626,785</u>
Depreciation charge for 2004				
	<u>92,991</u>	<u>66,979</u>	<u>709,135</u>	<u>869,105</u>

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

	2005	2004
	RM	RM
Office premises and leasehold renovations	1,406,486	1,406,239
Motor vehicles	-	4,318
Furniture, fittings, office equipment and computers	2,439,694	3,692,737
	<u>3,846,180</u>	<u>5,103,294</u>

- (b) The net book value of motor vehicles held under finance lease arrangements with a fellow subsidiary, Pac Lease Sdn. Bhd., is RMNil (2004: RM42,607).

4. DEFERRED TAX ASSETS/(LIABILITIES)

	2005	2004
	RM	RM
At 1 January	191,817	525,154
Recognised in the income statement (Note 19)	(155,181)	(333,337)
At 31 December	<u>36,636</u>	<u>191,817</u>

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

2005

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

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

2004

Deferred Tax Liabilities	Accelerated capital allowances RM	Total RM
At 1 January	(430,512)	(430,512)
Recognised in the income statement	(48,706)	(48,706)
At 31 December	<u>(479,218)</u>	<u>(479,218)</u>

Deferred Tax Assets	Receivables RM	Staff retirement gratuities RM	Others RM	Total RM
At 1 January	715,333	213,762	26,571	955,666
Recognised in the income statement	(115,383)	(150,864)	(18,384)	(284,631)
At 31 December	<u>599,950</u>	<u>62,898</u>	<u>8,187</u>	<u>671,035</u>

5. INVESTMENTS

	2005		2004	
	Cost RM	Market/ indicative value* RM	Cost RM	Market/ indicative value* RM
Investment properties, at cost	959,450		959,450	
Impairment loss	(36,700)		(35,000)	
	<u>922,750</u>	<u>922,750</u>	<u>924,450</u>	<u>924,450</u>
Malaysian Government Securities ("MGS")	18,142,420		18,142,420	
Amortisation of premiums net of accretion of discounts	(887,024)		(431,248)	
	<u>17,255,396</u>	<u>17,590,163</u>	<u>17,711,172</u>	<u>18,499,956</u>
Government Investment Issue ("GII")	-		4,656,000	
Accretion of discounts	-		206,642	
	<u>-</u>	<u>-</u>	<u>4,862,642</u>	<u>4,893,500</u>

	2005		2004	
	Cost RM	Market/ indicative value* RM	Cost RM	Market/ indicative value* RM
Quoted in Malaysia:				
Shares, warrants and other securities (N1)	27,895,388		23,342,291	
Provision for diminution in value	<u>(3,842,252)</u>		<u>(1,107,080)</u>	
	<u>24,053,136</u>	<u>24,053,136</u>	<u>22,235,211</u>	<u>22,235,211</u>
Unit trusts (N2)	5,519,917		8,933,329	
Provision for diminution in value	<u>(497,566)</u>		<u>-</u>	
	<u>5,022,351</u>	<u>5,022,351</u>	<u>8,933,329</u>	<u>9,345,153</u>
Unquoted:				
Cagamas bonds	10,054,500	<u>10,019,000</u>	10,054,500	<u>10,119,000</u>
Corporate bonds (N3)	<u>32,599,415</u>	<u>32,907,000</u>	<u>34,681,830</u>	<u>35,714,100</u>
	42,653,915		44,736,330	
Accretion of discounts net of amortisation of premiums	<u>145,070</u>		<u>623,828</u>	
	<u>42,798,985</u>		<u>45,360,158</u>	
Fixed and call deposits with licensed financial institutions:				
Commercial banks (N4)	94,013,007		93,618,124	
Finance companies	10,080,205		6,183,266	
Other financial institutions (N5)	<u>25,846,266</u>		<u>26,812,071</u>	
	<u>129,939,478</u>		<u>126,613,461</u>	
Total investments	<u>219,992,096</u>		<u>226,640,423</u>	

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

N1 includes an amount of RM23,944,505 (2004: RM19,297,106) managed by a fellow subsidiary, PacificMas Asset Management Sdn. Bhd.

N2 includes an amount of RM3,779,532 (2004: RM3,334,191) managed by a fellow subsidiary, Pacific Mutual Fund Bhd.

- N3 all unquoted corporate bonds carry a minimum rating of “BBB” (long-term) or “P3” (short-term) or their equivalents by a rating agency established in Malaysia.
- N4 includes an amount of RM19,876,600 (2004: RM11,030,063) placed with OCBC Bank (Malaysia) Berhad, a subsidiary of a substantial shareholder of the holding company.
- N5 includes an amount of RM6,728,380 (2004: RM14,024,864) managed by a fellow subsidiary, PacificMas Asset Management Sdn. Bhd.

The maturity structure of investments, at cost (excluding equity investments, warrants, unit trusts and investment properties) 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
2005					
MGS	3,564,660	14,577,760	-	-	18,142,420
Unquoted Cagamas bonds	5,040,000	5,014,500	-	-	10,054,500
Unquoted corporate bonds	9,334,700	8,257,235	6,307,480	8,700,000	32,599,415
Fixed and call deposits	129,939,478	-	-	-	129,939,478
	<u>147,878,838</u>	<u>27,849,495</u>	<u>6,307,480</u>	<u>8,700,000</u>	<u>190,735,813</u>
2004					
MGS	-	15,758,420	2,384,000	-	18,142,420
GII	4,656,000	-	-	-	4,656,000
Unquoted Cagamas bonds	-	10,054,500	-	-	10,054,500
Unquoted corporate bonds	7,803,130	9,334,700	13,473,500	4,070,500	34,681,830
Fixed and call deposits	126,613,461	-	-	-	126,613,461
	<u>139,072,591</u>	<u>35,147,620</u>	<u>15,857,500</u>	<u>4,070,500</u>	<u>194,148,211</u>

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		Average remaining maturity	
	2005 (% per annum)	2004	2005 (Days)	2004
Commercial banks	3.01	3.12	172	186
Finance companies	3.10	3.58	109	141
Other financial institutions	3.04	2.93	72	49

Other financial institutions are discount houses and savings institutions.

6. LOANS

	2005 RM	2004 RM
Staff loans:		
Secured	3,728,534	4,013,517
Unsecured	33,304	2,989
	<u>3,761,838</u>	<u>4,016,506</u>
Receivable after 12 months	<u>3,194,727</u>	<u>3,525,667</u>

The weighted average effective interest rate for staff loans as at 31 December 2005 was 3.20% (2004: 3.27%) per annum on the basis of monthly rest.

7. RECEIVABLES

	2005 RM	2004 RM
Trade receivables:		
Due premiums including agents/brokers and co-insurers balances	19,979,966	19,075,306
Allowance for doubtful debts	(3,946,260)	(4,807,162)
	<u>16,033,706</u>	<u>14,268,144</u>
Amount due from reinsurers/ceding companies	2,893,213	4,681,521
Allowance for doubtful debts	(917,241)	(1,231,508)
	<u>1,975,972</u>	<u>3,450,013</u>
Total trade receivables	<u>18,009,678</u>	<u>17,718,157</u>
	2005 RM	2004 RM
Other receivables:		
Other receivables, deposits and prepayments	9,852,986	8,918,471
Tax recoverable	502,655	574,446
Income due and accrued	2,069,358	2,383,450
Total other receivables	<u>12,424,999</u>	<u>11,876,367</u>

Total receivables	<u>30,434,677</u>	<u>29,594,524</u>
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8. PROVISION FOR OUTSTANDING CLAIMS

	2005	2004
	RM	RM
Provision for outstanding claims	103,061,600	121,989,195
Recoverable from reinsurers	<u>(28,385,829)</u>	<u>(33,464,197)</u>
Net outstanding claims	<u>74,675,771</u>	<u>88,524,998</u>

9. PAYABLES

	2005	2004
	RM	RM
Trade payables:		
Amount due to reinsurers/ceding companies	3,542,321	3,509,065
Amount due to brokers, co-insurers and insureds	<u>4,071,504</u>	<u>4,562,054</u>
	<u>7,613,825</u>	<u>8,071,119</u>
Other payables:		
Other payables and accrued liabilities	<u>6,221,929</u>	<u>6,715,951</u>
Total payables	<u>13,835,754</u>	<u>14,787,070</u>

10. STAFF RETIREMENT GRATUITIES

	2005	2004
	RM	RM
At 1 January	224,635	763,434
Provision for the year	26,926	64,307
	<u>251,561</u>	<u>827,741</u>
Benefits paid during the year	(17,524)	(603,106)
At 31 December	<u>234,037</u>	<u>224,635</u>

11. UNEARNED PREMIUM RESERVES

	Fire	Motor	Marine, Aviation and Transit	Medical & Health	Misc.	Total Misc.	Total
	RM	RM	RM	RM	Others	RM	RM
2005							
At 1 January	4,841,650	10,990,728	217,176	12,669,438	5,615,795	18,285,233	34,334,787
(Decrease)/ increase	<u>(531,852)</u>	<u>2,607,118</u>	<u>205,542</u>	<u>322,084</u>	<u>937,605</u>	<u>1,259,689</u>	<u>3,540,497</u>
At 31 December	<u>4,309,798</u>	<u>13,597,846</u>	<u>422,718</u>	<u>12,991,522</u>	<u>6,553,400</u>	<u>19,544,922</u>	<u>37,875,284</u>
2004							
At 1 January	3,633,299	9,069,728	66,674	12,130,284	5,655,489	17,785,773	30,555,474
Acquisition of business	922,020	2,673,119	51,903	89,328	823,564	912,892	4,559,934
Increase/ (decrease)	<u>286,331</u>	<u>(752,119)</u>	<u>98,599</u>	<u>449,826</u>	<u>(863,258)</u>	<u>(413,432)</u>	<u>(780,621)</u>
At 31 December	<u>4,841,650</u>	<u>10,990,728</u>	<u>217,176</u>	<u>12,669,438</u>	<u>5,615,795</u>	<u>18,285,233</u>	<u>34,334,787</u>

12. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2005	2004	2005 RM	2004 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

13. DIVIDENDS

	Amount		Net dividend per share	
	2005 RM	2004 RM	2005 Sen	2004 Sen
Interim dividends of 12.5 sen per share less 28% taxation (2004: 12 sen per share less 28% taxation)	9,000,000	8,640,000	9.0	8.6

The directors do not propose any final dividend for the financial year ended 31 December 2005.

14. OPERATING REVENUE

	Shareholder's fund RM	General business RM	Total RM
2005			
Gross premiums	-	111,454,177	111,454,177
Investment income (Note 14a)	732,741	7,574,708	8,307,449
	<u>732,741</u>	<u>119,028,885</u>	<u>119,761,626</u>
2004			
Gross premiums	-	98,230,030	98,230,030
Investment income (Note 14a)	979,667	7,435,796	8,415,463
	<u>979,667</u>	<u>105,665,826</u>	<u>106,645,493</u>

14a. Investment Income

	Shareholder's fund		General business	
	2005 RM	2004 RM	2005 RM	2004 RM
Interest income from:				
MGS	-	-	1,320,970	987,724
Corporate bonds	-	-	1,719,051	2,213,322

Cagamas bonds	-	-	363,250	179,678
Fixed and call deposits	708,741	955,667	3,161,314	3,122,316
Gross dividends from:				
Shares quoted in				
Malaysia	-	-	831,390	683,221
Unit trusts	-	-	353,171	378,619
Rental of properties	24,000	24,000	51,400	49,800
Amortisation of premiums, net of accretion of discounts	-	-	(225,838)	(178,884)
	<u>732,741</u>	<u>979,667</u>	<u>7,574,708</u>	<u>7,435,796</u>

15. OTHER OPERATING INCOME/(EXPENSES)

	Shareholder's fund		General business	
	2005	2004	2005	2004
	RM	RM	RM	RM
Other income:				
Net gain on disposal of investments	-	-	378,133	3,319,947
Gain on disposal of property and equipment	-	-	33,417	167,936
Write back of provision for diminution in value of investments	-	-	-	124,916
Interest income from staff loans	106,853	151,374	-	-
Sundry income	-	-	166,413	253,098
	<u>106,853</u>	<u>151,374</u>	<u>577,963</u>	<u>3,865,897</u>
Other expenses:				
Impairment of an investment property	-	-	(1,700)	(35,000)
Write off of property and equipment	-	-	(42,254)	(26,887)
Provision for diminution in value of investments	-	-	(3,232,740)	-
Interest expenses	-	-	(2,663)	(4,543)
Sundry expenses	-	-	(3,303)	(3,868)
Net income/(expenses)	<u>106,853</u>	<u>151,374</u>	<u>-2,704,697</u>	<u>3,795,599</u>

16. MANAGEMENT EXPENSES

	Shareholder's fund		General business	
	2005	2004	2005	2004
	RM	RM	RM	RM
Staff costs:				
Salaries, bonus, allowances and other related costs	-	-	11,645,594	10,364,348
EPF	-	-	1,540,443	1,490,737
Provision for staff retirement gratuities	-	-	26,926	64,307
Short-term accumulating				

compensated absences	-	-	(21,314)	(64,655)
	-	-	13,191,649	11,854,737
Directors' fees (Note 17)	-	-	137,500	137,500
Auditors' remuneration			66,000	66,000
Bad debts recovered net of write-off	-	-	(1,196,190)	(1,267,296)
Office rental	-	-	1,500,747	1,535,164
Office equipment rental	-	-	94,409	90,051
Depreciation of property and equipment	-	-	1,158,702	869,105
Other expenses	78,706	315,310	7,560,572	5,668,278
	78,706	315,310	22,513,389	18,953,539

17. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

	2005	2004
	RM	RM
Non-executive directors:		
Directors' fees	137,500	137,500
Total directors' fees	137,500	137,500

The remuneration attributable to the Chief Executive Officer of the Company included in staff costs amounted to RM445,440 (2004: RM439,391). The estimated monetary value of benefits-in-kind not included therein was RM10,746 (2004: RM6,942).

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

	Number of directors	
	2005	2004
Non-executive directors:		
Below RM50,000	5	5

18. FINANCE COSTS

Finance costs relate to finance lease interest.

19. TAXATION

	2005	2004
	RM	RM
Income tax:		
Malaysian income tax	3,431,353	4,569,675
Under/(over) provision in respect of prior years	140,202	(105,662)
	<u>3,571,555</u>	<u>4,464,013</u>
Deferred tax relating to origination and reversal of temporary differences (Note 4)	155,181	333,337
Tax expense for the year	<u>3,726,736</u>	<u>4,797,350</u>

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:

	2005	2004
	RM	RM
Profit before taxation	<u>13,417,005</u>	<u>18,454,488</u>
Taxation at Malaysian statutory income tax rate of 28% (2004: 28%)	3,756,761	5,167,257
Expenses not deductible for tax purposes	78,164	160,859
Income not subject to tax	(381,313)	(454,548)
Under/(over) provision of income tax in prior years	140,202	(105,662)
Underprovision of deferred tax in prior years	132,922	29,444
Tax expense for the year	<u>3,726,736</u>	<u>4,797,350</u>

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and exempt income to frank the payment of dividends out of its entire retained profits as at 31 December 2005.

As at 31 December 2005, the Company has tax exempt income available for distribution of approximately RM1,577,000 (2004: RM1,470,000), subject to agreement of the Inland Revenue Board.

20. NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, Aviation and Transit RM	Misc.			Total RM
				Medical & Health RM	Others RM	Total Misc. RM	
2005							
Gross claims paid less salvage	6,655,943	29,078,862	1,744,670	20,886,763	10,787,000	31,673,763	69,153,238
Reinsurance recoveries	(1,658,049)	(5,790,132)	(1,056,515)	(2,224,609)	(3,578,942)	(5,803,551)	(14,308,247)
Net claims paid	4,997,894	23,288,730	688,155	18,662,154	7,208,058	25,870,212	54,844,991
Net outstanding claims:							
At 31 December	6,055,318	45,323,649	2,290,819	4,746,359	16,259,626	21,005,985	74,675,771
At 1 January	(5,564,135)	(57,533,617)	(2,512,244)	(5,831,162)	(17,083,840)	(22,915,002)	(88,524,998)
Net claims incurred	5,489,077	11,078,762	466,730	17,577,351	6,383,844	23,961,195	40,995,764
2004							
Gross claims paid less salvage	5,422,548	21,085,840	920,775	19,334,927	10,675,490	30,010,417	57,439,580
Reinsurance recoveries	(2,325,616)	(2,828,466)	(691,766)	(2,904,038)	(4,803,866)	(7,707,904)	(13,553,752)
Net claims paid	3,096,932	18,257,374	229,009	16,430,889	5,871,624	22,302,513	43,885,828
Net outstanding claims:							
At 31 December	5,564,135	57,533,617	2,512,244	5,831,162	17,083,840	22,915,002	88,524,998
Acquisition of business	(1,869,625)	(21,203,437)	(848,570)	(105,825)	(3,123,235)	(3,229,060)	(27,150,692)
At 1 January	(3,680,511)	(43,713,245)	(1,727,583)	(3,963,771)	(13,095,893)	(17,059,664)	(66,181,003)
Net claims incurred	3,110,931	10,874,309	165,100	18,192,455	6,736,336	24,928,791	39,079,131

21. 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 RM9,690,269 (2004: RM13,657,138) over the number of shares in issue during the year of 100,000,000 (2004: 100,000,000). There is no dilution in earnings per share as there were no dilutive potential ordinary shares as at 31 December 2005.

22. SEGMENT INFORMATION ON CASH FLOW

	Shareholder's fund RM	General business RM	Total RM
2005			
Cash flows from:			
Operating activities	9,205,031	(3,209,360)	5,995,671
Investing activities	-	(943,025)	(943,025)
Financing activities	(9,000,000)	(316)	(9,000,316)
	<u>205,031</u>	<u>(4,152,701)</u>	<u>(3,947,670)</u>
Net increase/(decrease) in cash and cash equivalents:			
At beginning of financial year	(78,852)	(8,035,626)	(8,114,478)
At end of financial year	<u>283,883</u>	<u>3,882,925</u>	<u>4,166,808</u>
	<u>205,031</u>	<u>(4,152,701)</u>	<u>(3,947,670)</u>
2004			
Cash flows from:			
Operating activities	8,578,402	8,237,744	16,816,146
Investing activities	-	(1,881,154)	(1,881,154)
Financing activities	(8,640,000)	(4,337)	(8,644,337)
	<u>(61,598)</u>	<u>6,352,253</u>	<u>6,290,655</u>
Net increase/(decrease) in cash and cash equivalents:			
At beginning of financial year	(140,450)	(1,683,373)	(1,823,823)
At end of financial year	<u>78,852</u>	<u>8,035,626</u>	<u>8,114,478</u>
	<u>(61,598)</u>	<u>6,352,253</u>	<u>6,290,655</u>

23. CAPITAL COMMITMENTS

	2005	2004
	RM	RM
Approved and contracted for:		
Property and equipment	20,784	39,785

24. SIGNIFICANT RELATED PARTY DISCLOSURES

	2005	2004
	RM	RM
Insurance premiums from:		
Holding company	43,689	36,234
Fellow subsidiaries		
- Pacific Mutual Fund Bhd	134,967	139,418
- Pac Lease Sdn. Bhd.	33,463	29,510
- P. B. Pacific Sdn. Bhd.	75,828	76,293
Associated company of the holding company		
- Malaysian Trustees Berhad	41,170	44,317
Substantial shareholder of the holding company		
- United Malacca Berhad	67,757	60,443
- Koperasi Angkatan Tentera Malaysia Berhad	12,171	-
Interest income from fixed and call deposits placed with:		
Subsidiary of a substantial shareholder of the holding company		
- OCBC Bank (Malaysia) Berhad	321,514	577,390
Insurance premiums to:		
Subsidiary of a substantial shareholder of the holding company		
- Great Eastern Life Assurance (Malaysia) Berhad	(53,943)	(74,900)
Insurance commissions including agency commissions to:		
Fellow subsidiary		
- Pac Lease Sdn. Bhd.	(375,688)	(272,577)
Substantial shareholder of the holding company		
- United Malacca Berhad	(51,079)	(86,063)
Subsidiary of a substantial shareholder of the holding company		
- OCBC Bank (Malaysia) Berhad	(30,777)	(36,490)

	2005	2004
	RM	RM
Claims payment to:		
Holding company	(11,278)	(15,592)
Fellow subsidiaries		
- Pac Lease Sdn. Bhd.	(10,814)	(26,653)
- P.B. Pacific Sdn. Bhd.	(2,550)	(6,350)
- Pacific Mutual Fund Bhd	(9,441)	(30,824)
Substantial shareholder of the holding company		
- United Malacca Berhad	(55,409)	(22,978)
Management fees to:		
Holding company	(1,648,500)	(1,704,530)
Premises rental to:		
Fellow subsidiary		
- P.B. Pacific Sdn. Bhd.	(1,205,550)	(1,198,853)
Investment management fees to:		
Fellow subsidiary		
- PacificMas Asset Management Sdn. Bhd.	(159,430)	(95,926)
Insurance premiums including agency premiums receivable from:		
Fellow subsidiary		
- Pac Lease Sdn. Bhd.	231,577	105,188
Substantial shareholder of the holding company		
- United Malacca Berhad	1,882	217,243
Current account balances with:		
Subsidiary of a substantial shareholder of the holding company		
- OCBC Bank (Malaysia) Berhad	1,841,151	300,523
Deposits and prepayments receivable from:		
Fellow subsidiary		
- P.B. Pacific Sdn. Bhd.	351,619	452,082
Lease payable to:		
Fellow subsidiary		
- Pac Lease Sdn. Bhd.	-	(32,517)

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

25. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

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

(b) Interest Rate Risk

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

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

(c) Liquidity Risk

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

(d) Market Risk

The Company's investments in equities, unit trusts, corporate bonds and Government securities are subject to fluctuations in market prices on listed stock exchanges and the secondary bond market. The Company's investments in equities are managed by licensed asset management companies. The Company has given clear investment guidelines and performance benchmarks to the asset management companies under the fund management agreements in order to manage the market risk. The unit trusts held by the Company are invested with licensed unit trust management companies which are governed by the unit trust guidelines and regulations stipulated by the Securities Commission. The Company monitors the performance of the unit trust investments against the relevant performance benchmarks established by the Company.

(e) Credit Risk

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

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

(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 2005:			
Investments	5		
MGS		17,255,396	17,590,163
Cagamas bonds		10,017,374	10,019,000
Unquoted corporate bonds		32,781,611	32,907,000
		60,054,381	60,516,163
At 31 December 2004:			
Investments	5		
MGS		17,711,172	18,499,956
GII		4,862,642	4,893,500
Quoted unit trusts		8,933,329	9,345,153
Danaharta bonds		10,039,817	10,119,000
Unquoted corporate bonds		35,320,341	35,714,100
		76,867,301	78,571,709

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

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

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

(ii) 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, Danaharta, Cagamas and unquoted corporate bonds are indicative values obtained from the secondary market.

26. SIGNIFICANT EVENT

As reported in the previous annual report, the holding company, PacificMas Berhad began negotiations in 2003 with Great Eastern Capital (Malaysia) Berhad (formerly known as GEL Capital (Malaysia) Berhad) for the restructuring of the equity and insurance operations of Great Eastern Life Assurance (Malaysia) Berhad and Overseas Assurance Corporation (Malaysia) Berhad (“OACM”), both wholly-owned subsidiaries of Great Eastern Holdings Limited (“GEH”), with GEH subsequently holding 51% interest in PacificMas Berhad. If this proposed restructuring is successful, the general insurance business of the Company will be integrated and merged with that of OACM. Both parties have completed their financial, tax and legal due diligence exercises. Substantial progress has been made in the valuation exercises of the insurance businesses of both parties. Negotiations on the pricing and the final scheme for the restructuring of equity/businesses are expected to commence in the first half of 2006 which, if mutually acceptable, will lead to both parties making submissions to the relevant authorities for approval.

27. COMPARATIVES

Certain comparative figures have been reclassified to conform with the current year's presentation.

28. CURRENCY

All amounts are stated in Ringgit Malaysia.