

RHB INSURANCE BERHAD
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RHB INSURANCE BERHAD
ANNUAL REPORT **2007**



As markets become increasingly competitive, one name continues to attract and delight customers on the back of a successful transformation programme - RHB. Leveraging on a business-centric strategy, RHB is well poised to unveil its true value as an integrated financial services provider.





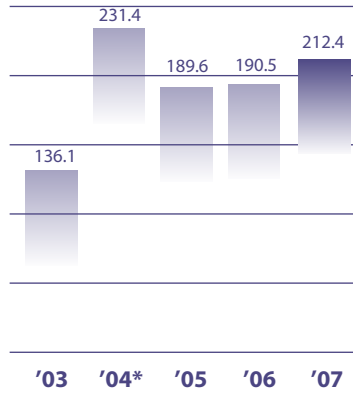
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financial highlights

	2007 RM million	2006 RM million	2005 RM million	2004 * RM million	2003 RM million
RESULTS					
Operating revenue	212.4	190.5	189.6	231.4	136.1
Profit before taxation	32.7	41.9	33.9	34.0	25.7
Profit for the financial year	23.6	30.1	24.2	25.2	18.3
Dividends - Net	21.9	21.9	21.6	18.0	23.4
BALANCE SHEETS					
Share capital	100.0	100.0	100.0	100.0	100.0
Shareholders' fund	121.8	142.0	133.5	127.3	120.1
Total Assets	310.7	306.9	290.7	273.8	237.8
RATIOS					
Dividends per share Gross - sen	30.0	30.0	30.0	25.0	32.5
Net tangible assets per share – (RM)	1.22	1.42	1.34	1.27	1.20

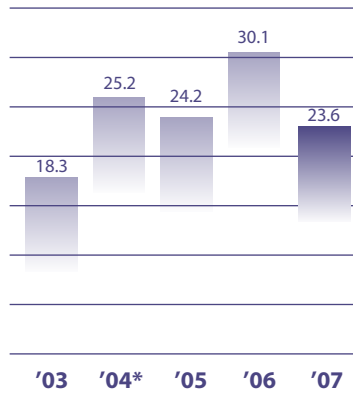
* The company changed its financial year end from 30 June to 31 December with effect from the financial period.



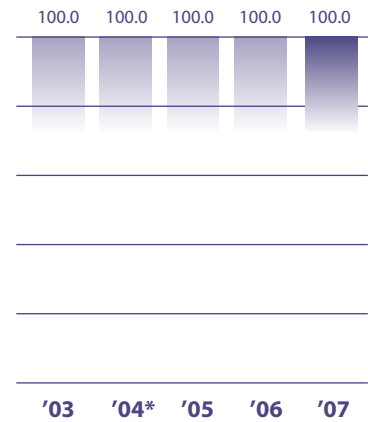
Operating Revenue
(RM million)



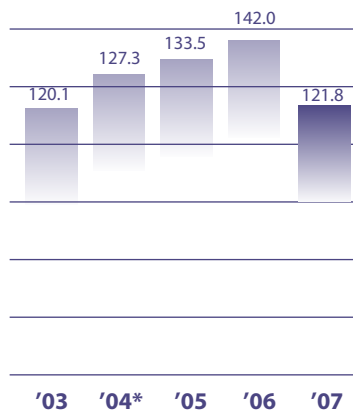
Profit Before Taxation
(RM million)



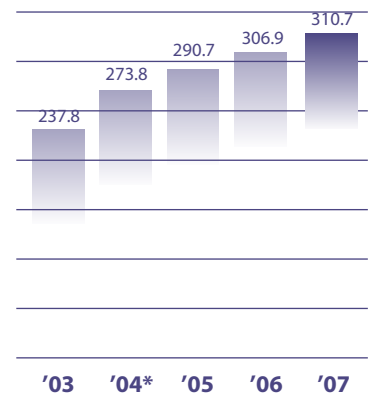
Profit for the Financial Year
(RM million)



Share Capital
(RM million)



Shareholders' Fund
(RM million)



Total Assets
(RM million)

* The company changed its financial year end from 30 June to 31 December with effect from the financial period.

corporate information

as at 31 March 2008

BOARD OF DIRECTORS

YBhg Dato' Mohd Salleh Hj Harun
Independent Non-Executive
Chairman

Tuan Haji Khairuddin Ahmad
Independent Non-Executive Director

Mr Lim Cheng Yeow
Independent Non-Executive Director

YBhg Datuk Haji Faisal Siraj
Independent Non-Executive Director

YBhg Datin Khamarzan Ahmed Meah
Independent Non-Executive Director

Mr Ong Seng Pheow
Independent Non-Executive Director

Mr Koh Heng Kong
Managing Director

COMPANY SECRETARY

En Azman Shah Md Yaman

AUDIT COMMITTEE

Mr Ong Seng Pheow
Chairman

YBhg Datuk Haji Faisal Siraj

Mr Lim Cheng Yeow

GROUP RISK MANAGEMENT COMMITTEE

YBhg Dato' Mohd Salleh Hj Harun
Chairman

Tuan Haji Khairuddin Ahmad

Mr Patrick Chin Yoke Chung

YBhg Datin Khamarzan Ahmed Meah

YBhg Datuk Tan Kim Leong

GROUP NOMINATING COMMITTEE

YBhg Datuk Haji Faisal Siraj
Chairman

YBhg Datuk Azlan Zainol

YBhg Datuk Tan Kim Leong

En Johari Abdul Muid

En Ismael Fariz Ali

GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE

YBhg Datuk Tan Kim Leong
Chairman

YBhg Datuk Azlan Zainol

YBhg Datuk Haji Faisal Siraj

En Johari Abdul Muid

En Ismael Fariz Ali

INVESTMENT COMMITTEE

YBhg Dato' Mohd Salleh Hj Harun
Chairman

Tuan Haji Khairuddin Ahmad

Mr Koh Heng Kong

GROUP CENTRAL MANAGEMENT

Mr Michael J. Barrett
Group Managing Director, RHB Capital Berhad

Pn Norazzah Sulaiman
Chief Operating Officer, RHB Capital Berhad

Mr Kellee Kam Chee Khiong
Chief Financial Officer, RHB Capital Berhad

Mr Chay Wai Leong
Head, Corporate & Investment Banking

Pn Jamelah Jamaluddin
Head, Islamic Banking

Mr Renzo Viegas
Head, Retail Banking

Mr Michael Lim Kheng Boon
Chief Operating Officer

Mr Rupert Koh Hock Joo
Head, Central Finance

Pn Nik Hasniza Nik Ibrahim
Head, Human Resources

SENIOR MANAGEMENT

Mr Koh Heng Kong
Managing Director

Ms Winnie Tan
General Manager, Finance & Corporate Planning

En Mohammed Mudathir
Mohammed Muzammil
Head, Branch Distribution

Mr Choo Seng Poh
Head, Operation

Ms Vivience Lee
Head, Agency & Broking Sales

Mr Norman Michael Tan
Head, Product Marketing

HEAD OF DEPARTMENTS

Pn Junaili Abdul Hamid
Central Region-1

Mr Chan Meng Onn
Central Region-2

Mr Richard Chen
Underwriting

Ms Vasanthakumari Balasundram
Claims

En Abdul Latiff Mohd Ismail
Broking

En Ridzwan Ahmad
Risk Survey

Mr Vincent Ong
Information Technology & Business Support

Ms Trina Yee
Reinsurance Inwards/Outwards

Mr Yee Chee Loong
Agency, Unit 1

Mr Richard Mak
Agency, Unit 2

Mr Gary Tan
Specialist Agencies

Ms Low Shiau Ling
Accounts

En Ahmad Zaidi Khairuddin
Compliance

Ms Shirleen Gan
Bancassurance/Casualty & Health

Ms Lancy How Soo Kut
Credit Control

Ms Wong Chin Yee
Methods & Systems

En Raja Azlan Shah Raja Shariman Shah
Administration & Procurement

Mr Ivan Bong Chee Meng
Commercial & Corporate

Mr Heng Hock Lee
Central Documents Processing

BRANCH MANAGERS

Mr Chan Tse Hong
Penang

Ms Candice Lee
Kajang

Mr Raymond Ho Hee Ming
Ipoh

En Abdul Rashid Bakar
Kuantan

Mr Soh Jiun Hong
Johor Bahru

Mr Jeff Toh Kim Chai
Kota Kinabalu

Mr Lai Kian Hing
Sandakan

Mr Sebastian Lo Ming Kong
Sibu

Mr Louis Teoh Choon Hoe
Melaka

En Sulaiman Abdul Razak
Kota Bharu

Mr Wong Shon Kwong
Kuching

Mr David Choe Kim Ong
Klang

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603-9285 2233
Fax : 603-9281 9314

PRINCIPAL PLACE OF BUSINESS

Level 8, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur

or

P.O Box 10835
50400 Kuala Lumpur
Tel : 603-92812731
Fax : 603-92812729

COMPANY NO.

38000-U

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
P. O. Box 10192
50706 Kuala Lumpur
Malaysia

The Committee resides at RHB Capital Berhad and is shared with relevant subsidiaries of the Group.

profile of the board of directors

as at 31 March 2008

YBHG DATO' MOHD SALLEH HJ HARUN

**(63 years of age – Malaysian)
Independent Non-Executive
Chairman**

YBhg Dato' Mohd Salleh Hj Harun ("YBhg Dato' Mohd Salleh") was appointed as an Independent Non-Executive Director of RHB Insurance on 23 August 2004. He was appointed as Chairman of RHB Insurance on 15 September 2004. He also serves as the Chairman of the Investment Committee of RHB Insurance and Group Risk Management Committee of the RHB Banking Group, functioning at the Company's holding company i.e. RHB Capital Berhad.

YBhg Dato' Mohd Salleh is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

YBhg Dato' Mohd Salleh has 33 years of experience in banking and finance sector, having held various senior positions in Aseambankers Malaysia Berhad and Malayan Banking Berhad. He was the Executive Director of Malayan Banking Berhad from 1994 to 2000 prior to joining Bank Negara Malaysia, whereat he served as Deputy Governor from 2000 to 2004.

YBhg Dato' Mohd Salleh's other directorships in public companies include RHB Bank Berhad, RHB Islamic Bank Berhad, Titan Chemical Corp. Berhad and Scicom MSC Berhad.

TUAN HAJI KHAIRUDDIN AHMAD

**(65 years of age – Malaysian)
Independent Non-Executive
Director**

Tuan Haji Khairuddin Ahmad ("Tuan Haji Khairuddin") was appointed as an Independent Non-Executive Director of RHB Insurance on 28 June 2004. He also serves as a Member of Investment Committee of RHB Insurance and Group Risk Management Committee of the RHB Banking Group, functioning at the Company's holding company i.e. RHB Capital Berhad.

Tuan Haji Khairuddin attended the Advance Management course at Columbia Business School in New York, USA.

Tuan Haji Khairuddin began his career in the banking industry and was previously with Citibank N.A., Southern Bank Berhad, Bank of Commerce Berhad and Arab Malaysian Finance Berhad.

Tuan Haji Khairuddin's other directorships in public companies include RHB Bank Berhad.

MR LIM CHENG YEOW

**(73 years of age – Malaysian)
Independent Non-Executive
Director**

Mr Lim Cheng Yeow ("Mr Lim") was appointed as an Independent Non-Executive Director of RHB Insurance on 28 June 2004. He also serves as a Member of the Audit Committee of RHB Insurance.

Mr Lim holds a Master of Arts in Economics from Cambridge University.

Mr Lim has over 46 years of experience in the banking and finance related services. He began his career in the banking industry with Malayan Banking Berhad in 1960, whereat he served in various executive positions including Deputy Chief Internal Auditor, Chief Internal Auditor and Head Regional Branch Operations prior to his retirement in 1990.

YBHG DATUK HAJI FAISAL SIRAJ

**(62 years of age – Malaysian)
Independent Non-Executive
Director**

YBhg Datuk Haji Faisal Siraj ("YBhg Datuk Faisal") was appointed as an Independent Non-Executive Director of RHB Insurance on 1 January 2008. He also serves as the Chairman of the Group Nominating Committee and a Member of the Group Remuneration and Human Resource Committee of the RHB Banking Group, functioning at the Company's holding company i.e. RHB Capital Berhad, as well as a Member of the Audit Committee of RHB Insurance.

YBhg Datuk Faisal is a Fellow of the Institute of Chartered Accountants in England & Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

YBhg Datuk Faisal started his career in 1968 with KPMG, London. On his transfer from KPMG, London to KPMG, Kuala Lumpur, he was posted to KPMG Kota Kinabalu to take charge of KPMG's East Malaysia operations until 1976.

YBHG DATIN KHAMARZAN AHMED MEAH

**(56 years of age – Malaysian)
Independent Non-Executive
Director**

YBhg Datuk Faisal joined Malaysia Mining Corporation (“MMC”) Group in 1976. He was the Group Executive Director and a Member of the MMC Board from 1981 to 1994. In 1995, he joined DRB-HICOM Berhad (“DRB-HICOM Group”) as the Group Chief Financial Officer in the capacity of Senior Group Director, Financial Services and Treasury Division and was a member of the DRB-HICOM Board, before his retirement in 2005.

YBhg Datuk Faisal’s other directorships in public companies include RHB Capital Berhad and RHB Islamic Bank Berhad (Chairman).

YBhg Datin Khamarzan Ahmed Meah (“YBhg Datin Khamarzan”) was appointed as an Independent Non-Executive Director of RHB Insurance on 1 January 2008. She holds a Bachelor of Economics (Honours) Degree from University of Malaya and a Masters in Development Economics from Boston University, USA.

YBhg Datin Khamarzan was previously the Deputy Director, Privatisation Division, Economic Planning Unit from 1992 to 1995. Prior to that, she was the Principal Assistant Secretary of the Banking and International Financing Section, Ministry of Finance from 1982 until 1991.

YBhg Datin Khamarzan’s other directorships in public companies include Rashid Hussain Berhad, RHB Investment Bank Berhad and RHB Bank (L) Ltd.

MR ONG SENG PHEOW

**(59 years of age – Malaysian)
Independent Non-Executive
Director**

Mr Ong Seng Pheow (“Mr Ong”) was appointed as an Independent Non-Executive Director of RHB Insurance on 1 January 2008. He also serves as the Chairman of the Audit Committee of RHB Insurance.

Mr Ong has over 34 years of audit and accounting experience. He is a Member of the Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants. He was a partner of Ernst & Young from 1984 to 2003. His last held position in Ernst & Young was the National Director of Assurance and Advisory Business Services. He has served on committees and working groups of MICPA.

Mr Ong’s other directorships in public companies include RHB Bank Berhad, Daiman Development Berhad, LCTH Corporation Berhad, George Kent (Malaysia) Berhad and HELP International Corporation Berhad.

MR KOH HENG KONG

**(55 years of age – Malaysian)
Managing Director**

Mr Koh Heng Kong (“Mr Koh”) was appointed as the Managing Director of RHB Insurance on 8 October 2007. He also serves as a member of the Investment Committee of RHB Insurance. He is a Chartered Insurer of the Chartered Insurance Institute, U.K.

Mr Koh has over 30 years experience in the insurance industry and has held various senior management positions for RHB Insurance. He joined RHB Insurance as an Accountant in 1976 after serving as an Assistant Accountant in his previous company. He was promoted to Manager, Finance and Administration in 1983, Assistant General Manager in 1989, General Manager in 1997 and Chief Executive Officer in 2002.

RHB Banking Group corporate structure

as at 31 March 2008

Commercial Banking Group

- RHB Bank Berhad
- RHB Islamic Bank Berhad
- RHB Bank (L) Ltd
 - RHB International Trust (L) Ltd
 - RHB Corporate Services Sdn Bhd
- RHB Leasing Sdn Bhd
- RHB Capital Nominees (Tempatan) Sdn Bhd
 - RHB Capital Nominees (Asing) Sdn Bhd
- RHB Capital Properties Sdn Bhd
- Utama Assets Sdn Bhd
- RHB Bank Nominees Pte Ltd (*Singapore*)
- Banfora Pte Ltd (*Singapore*)
- RHB Investment Ltd (*Singapore*)
- RHB Trade Services Limited (*Hong Kong*)
- Utama Gilang Sdn Bhd
- UMBC Sdn Bhd
- RHB Delta Sdn Bhd
- RHB Delta Nominees (Tempatan) Sdn Bhd
- INFB Jaya Sdn Bhd ⁽⁵⁾
- USB Nominees Sdn Bhd ⁽⁵⁾
- USB Nominees (Asing) Sdn Bhd ⁽⁵⁾
- USB Nominees (Tempatan) Sdn Bhd ⁽⁵⁾
- U.B. Nominees (Tempatan) Sdn Bhd ⁽⁵⁾

Investment Banking Group

- RHB Investment Bank Berhad
- RHB Investment Management Sdn Bhd
(Formerly known as RHB Asset Management Sdn Bhd)
- RHB Research Institute Sdn Bhd
- RHB Merchant Nominees (Tempatan) Sdn Bhd
 - RHB Merchant Nominees (Asing) Sdn Bhd
- RHB Private Equity Holdings Sdn Bhd
 - RHB Private Equity Management Ltd
 - RHB Private Equity Fund Ltd (*Cayman Islands*)
- RHB Nominees Sdn Bhd
- RHB Nominees (Tempatan) Sdn Bhd
- RHB Nominees (Asing) Sdn Bhd
- RHB Excel Sdn Bhd
- RHB Progressive Sdn Bhd
- RHB Marketing Services Sdn Bhd
- RHB Venture Capital Sdn Bhd
- RHB Unit Trust Management Berhad



RHB CAPITAL BERHAD

Others

— RHB Insurance Berhad (79.5%)
— RHB Equities Sdn Bhd ⁽¹⁾
— KYB Sdn Bhd
— RHB Capital (Jersey) Limited
— Rashid Hussain Securities (Philippines), Inc (<i>Philippines</i>) ⁽²⁾
— PT Rashid Hussain Securities (<i>Indonesia</i>) (85%) ⁽³⁾
— RHB Hartanah Sdn Bhd
— Positive Properties Sdn Bhd (50%)
— Straits Asset Holdings Sdn Bhd
— SSSB Services (Melaka) Sdn Bhd
— SFSB Services (Melaka) Sdn Bhd
— RHB Dynamic Technologies Sdn Bhd ⁽⁴⁾
— RHB Bena Sdn Bhd ⁽⁴⁾
— KYB Trust Management Sdn Bhd ⁽⁴⁾
— Kwong Yik Nominees (Asing) Sdn Bhd ⁽⁴⁾
— Kwong Yik Nominees (Tempatan) Sdn Bhd ⁽⁴⁾
— RHBF Sdn Bhd
— KYF Sdn Bhd

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company

Associate company

⁽¹⁾ With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.

⁽²⁾ The company has ceased operations from the close of business on 10 December 2001.

⁽³⁾ The company has ceased operations on 31 July 2001 and commenced proceedings for members' voluntary dissolution.

⁽⁴⁾ The company has commenced members' voluntary winding-up on 26 November 2007.

⁽⁵⁾ The company has commenced members' voluntary winding-up on 25 March 2008.

Country of incorporation is in Malaysia unless otherwise indicated in italics.

statutory financial statements

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directors' report

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITY

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

FINANCIAL RESULTS

	RM
Profit for the financial year	23,624,676
Retained earnings brought forward	41,988,762
Profits available for appropriation	65,613,438
Dividends	(43,800,000)
Retained earnings carried forward	21,813,438

DIVIDENDS

The dividends paid or declared by the Company since 31 December 2006 are as follows:

	RM
A final dividend of 30% less tax at 27% for the financial year ended 31 December 2006, paid on 3 May 2007.	21,900,000
An interim dividend of 30% less tax at 27% for the financial year ended 31 December 2007, paid on 28 December 2007.	21,900,000
	43,800,000

The Directors do not recommend any final dividend to be paid for the current financial year.

RESERVES AND PROVISIONS

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

PROVISION FOR OUTSTANDING CLAIMS

Before the income statement and balance sheet of the Company 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.

BAD AND DOUBTFUL DEBTS

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors of the Company are not aware of any circumstances that would render the amount written off for bad debts or the amounts of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

CORPORATE GOVERNANCE**Introduction**

As part of the ongoing measures to raise corporate governance standards in the conduct of insurance business, Bank Negara Malaysia ("BNM") has developed a Prudential Framework of Corporate Governance for Insurance Companies ("the Framework") which was issued as JPI/GPI 25 (Consolidated) for adoption by insurers. The primary objective of the Framework is to enhance the corporate accountability of insurers and promote the interests of their stakeholders, specifically those of policy owners, claimants and creditors. The Framework establishes basic principles of good corporate governance which focus on the processes and structures used to direct and manage the business and affairs of insurers.

The Directors are committed to ensure that the highest standards of corporate governance are practised by the Company as a fundamental part of discharging their responsibilities in order to promote the interests of stakeholders and enhance shareholders' value.

Board Responsibility And Oversight

The Board of Directors comprises six Independent Non-executive Directors, and an Executive Director. The Board of Directors is qualified and has wide business and financial experience to effectively provide directions in terms of corporate objectives and business strategies.

9 meetings were held during the financial year ended 31 December 2007.

The details of attendance of each Director at Board meetings held during the financial year are set out below:

No	Name of Directors	Total meetings attended	Percentage of attendance (%)
1	YBhg Dato' Mohd Salleh Hj Harun	9/9	100
2	Mr Lim Cheng Yeow	8/9	89
3	Tuan Haji Khairuddin Ahmad	9/9	100
4	Mr Koh Heng Kong ¹	2/2*	100
5	YBhg Datin Khamarzan Ahmed Meah ²	N/A	N/A
6	YBhg Datuk Haji Faisal Siraj ²	N/A	N/A
7	Mr Ong Seng Pheow ²	N/A	N/A
8	YBhg Dato' Vaseehar Hassan Abdul Razack ³	6/9	67
9	YBhg Dato' Mohamed Khadar Merican ⁴	9/9	100

Notes:

¹ Appointed on 8 October 2007

² Appointed on 1 January 2008

³ Resigned on 31 December 2007

⁴ Resigned on 31 January 2008

* Based on the number of Board meetings held since his date of appointment to the Board.

Each Director is required, pursuant to BNM Guidelines [JPI/GPI 25 (Consolidated)], to attend at least 75% of board meetings.

The Company has been utilising the Nominating Committee ("NC") and Remuneration and Human Resource Committee ("RHRC") of its holding company, RHB Capital Berhad ("RHB Capital"), to undertake the role of the Company's NC and RHRC respectively, to be responsible for proposing new nominations for appointment to the Senior Management and Board as well as the development of relevant policies on the remuneration of Directors and staff. Following the formal establishment of the Group NC and Group RHRC (which comprise Directors within the RHB Capital Group) at RHB Capital level with effect from 1 January 2008, the roles and responsibilities of the NC and RHRC for the RHB Capital Group have been undertaken by the Group NC and Group RHRC. The NC and RHRC of RHB Capital has thereafter been dissolved accordingly.

CORPORATE GOVERNANCE (CONTINUED)**Board Responsibility And Oversight (Continued)**

The compositions and the salient terms of reference of the Group NC and Group RHRC are as follows:-

Members of Group NC

- 1 YBhg Datuk Haji Faisal Siraj (Chairman/Independent Non-Executive Director)
- 2 YBhg Datuk Azlan Zainol (Member/Non-Independent Non-Executive Director)
- 3 YBhg Datuk Tan Kim Leong (Member/Independent Non-Executive Director)
- 4 En Johari Abdul Muid (Member/Non-Independent Non-Executive Director)
- 5 En Ismael Fariz Ali (Member/Independent Non-Executive Director)

The objectives of the Group NC, amongst others, are as follows:-

- (i) to provide a documented, formal and transparent procedure for the appointment of directors, board committee members, Group Shariah Committee members, chief executive officer and key senior management officers of RHB Capital Group as well as assessment of effectiveness thereof;
- (ii) to assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which directors should bring to the Board and which the Board requires for it to function completely and efficiently; and
- (iii) to examine the size of the Board with a view of determining the impact of the number upon its effectiveness.

Members of Group RHRC

- 1 YBhg Datuk Tan Kim Leong (Chairman/Independent Non-Executive Director)
- 2 YBhg Datuk Azlan Zainol (Member/Non-Independent Non-Executive Director)
- 3 YBhg Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director)
- 4 En Johari Abdul Muid (Member/Non-Independent Non-Executive Director)
- 5 En Ismael Fariz Ali (Member/Independent Non-Executive Director)

The objectives of Group RHRC, among others, are as follows:-

- (i) to provide a formal and transparent procedure for developing the remuneration policy for directors, board committee members, chief executive officer, Group Shariah Committee members and key senior management officers of RHB Capital Group and ensuring that compensation is competitive and consistent with the RHB Capital Group's culture, objectives and strategy;
- (ii) to recommend to the Board on the policies, strategies and framework for the RHB Capital Group in relation to staff remuneration, rewards and benefits;
- (iii) to oversee and review the scope and quality of human resource projects/programmes of the RHB Capital Group; and
- (iv) to oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

Apart from the NC and RHRC which have been consolidated at the Group level, a Group Risk Management Committee ("Group RMC") for RHB Capital Group has also been established at RHB Capital level effective 1 November 2007. Accordingly, the RMC of the Company has been dissolved on the same date.

CORPORATE GOVERNANCE (CONTINUED)**Board Responsibility And Oversight (Continued)**

The composition of the Group RMC and its salient terms of reference are as follows:-

Members of Group RMC

- 1 YBhg Dato' Mohd Salleh Hj Harun (Chairman/Independent Non-Executive Director)
- 2 Tuan Haji Khairuddin Ahmad (Member/Independent Non-Executive Director)
- 3 Mr Patrick Chin Yoke Chung (Member/Independent Non-Executive Director)
- 4 YBhg Datin Khamarzan Ahmed Meah (Member/Independent Non-Executive Director)
- 5 YBhg Datuk Tan Kim Leong (Member/Independent Non-Executive Director)

The main objectives of the Group RMC are as follows:-

- (i) to provide oversight and governance of risks at the Group;
- (ii) to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process of each entity in the Group is in place and functioning;
- (iii) to promote the management of the Group's risk in accordance with a risk-return performance management framework; and
- (iv) to deliberate and make recommendations to the Boards of each relevant entity within the Group in respect of risk management matters of the respective entities.

The Company's Audit Committee comprises the following members:

Audit Committee

- 1 Mr Ong Seng Pheow (Chairman/Independent Non-Executive Director)
- 2 Mr Lim Cheng Yeow (Member/Independent Non-Executive Director)
- 3 YBhg Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director)

Management Accountability

The Company has a well-documented and updated organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees. Management obtains a quarterly declaration from staff on adherence to the insurance industry's Code of Ethics.

Policies and procedures are documented in the operating manuals for all the core functions of the Company such as underwriting, claims, reinsurance and finance. Monthly meetings are scheduled for Senior Management and various working committees i.e. Technical, Marketing, Information Technology Review and Credit Control to communicate on the affairs and operations of the Company. In addition, regular departmental/branch meetings are also held to discuss each operating unit's affairs and to communicate relevant information to staff.

Corporate Independence

The related party transactions are on terms and conditions no more favourable than those available on similar transactions to the Company's other customers. All material related party transactions have been disclosed in the financial statements.

Internal Controls And Operational Risk Management

The Directors acknowledge their responsibility for the system of internal controls maintained by the Company and for reviewing its effectiveness. The system of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement, loss or fraud.

CORPORATE GOVERNANCE (CONTINUED)**Internal Controls And Operational Risk Management (Continued)**

The Board maintains a control-conscious culture across all areas of operations in the Company. There is an on-going process for identifying, evaluating and managing all significant risks faced by the Company which will be regularly reviewed by the Board.

The Group's internal audit regularly reports on compliance with the system of internal controls and procedures to the Management, Audit Committee and the Board. There are also procedures for external auditors to report conclusions and recommendations to the Management, Audit Committee and the Board.

The Group's internal audit will ensure that recommendations to improve controls are followed through by the Management on a timely manner.

Public Accountability

The Company upholds the principles of fairness and professionalism in the conduct of its business. The requirement of a written disclosure in insurance policies pertaining to the existence of the Insurance Mediation Bureau ("IMB") and BNM's Customer Service Bureau ("CSB") is effected on all new and renewal policies issued. The notice will inform the policyholders on the procedures for complaints to the IMB and CSB of any unfair market practices.

Financial Reporting

The Management ensures that proper records are maintained to support all financial transactions and the financial statements are prepared in accordance with MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965. In accordance with Section 95(1) of the Insurance Act, 1996, on a yearly basis, the statutory financial statements are published in two local newspapers within fourteen days of the Annual General Meeting.

The Board and Senior Management receive regular financial and management reports to enable them to effectively monitor the financial performance and condition of the Company in relation to the corporate objectives and responsibilities.

The Management ensures that the monthly and annual returns are submitted to BNM on a timely basis.

DIRECTORS AND THEIR INTERESTS IN SECURITIES

The Directors who have held office during the year since the date of the last report are:

YBhg Dato' Mohd Salleh Hj Harun	
Mr Lim Cheng Yeow	
Tuan Haji Khairuddin Ahmad	
Mr Koh Heng Kong	(appointed on 8 October 2007)
YBhg Datin Khamarzan Ahmed Meah	(appointed on 1 January 2008)
YBhg Datuk Haji Faisal Siraj	(appointed on 1 January 2008)
Mr Ong Seng Pheow	(appointed on 1 January 2008)
YBhg Dato' Vaseehar Hassan Abdul Razack	(resigned on 31 December 2007)
YBhg Dato' Mohamed Khadar Merican	(resigned on 31 January 2008)

In accordance with Article 74 of the Company's Articles of Association, YBhg Dato' Mohd Salleh Hj Harun retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Article 80 of the Company's Articles of Association, YBhg Datin Khamarzan Ahmed Meah, YBhg Datuk Haji Faisal Siraj and Mr Ong Seng Pheow retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for election.

Pursuant to Section 129 of the Companies Act, 1965, Mr Lim Cheng Yeow retires at the forthcoming Annual General Meeting and will not offer himself for re-appointment.

DIRECTORS AND THEIR INTERESTS IN SECURITIES (CONTINUED)

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

Holding Company RHB Capital Berhad	Number of ordinary shares of RM1 each			As at 31.12.2007
	As at 1.1.2007	Bought	Sold	
Tuan Haji Khairuddin Ahmad – Direct	15,000	7,000	–	22,000
YBhg Dato' Mohamed Khadar Merican – Direct	10,000	30,000	–	40,000
YBhg Dato' Mohd Salleh Hj Harun – Direct	15,000	–	–	15,000
Mr Koh Heng Kong – Indirect ¹	–	3,000	–	3,000

Note: ¹ Indirect interest held by family member.

Other than the above, none of the other Directors in office at the end of the financial year held any interest in the shares in or debentures of the Company or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related company with a Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain Directors received remuneration from the Company's holding company and other related corporations.

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

HOLDING AND ULTIMATE HOLDING COMPANIES

The holding company is RHB Capital Berhad and the Directors regard the Employees Provident Fund Board ("EPF") as the ultimate holding company. RHB Capital Berhad is a company incorporated in Malaysia whilst EPF is a statutory body established in Malaysia.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 18 January 2008.

DATO' MOHD SALLEH HJ HARUN
CHAIRMAN

KOH HENG KONG
MANAGING DIRECTOR

Kuala Lumpur
28 February 2008

balance sheet

as at 31 December 2007

	Note	2007 RM	2006 RM
ASSETS			
Property, plant and equipment	6	2,936,560	3,100,305
Prepaid lease rental	7	647,527	655,479
Investments	8	263,474,346	268,857,902
Deferred tax assets	9	2,364,000	767,000
Loans	10	1,015,550	982,406
Receivables	11	39,316,334	32,470,666
Cash and cash equivalents	12	918,221	54,005
Total assets		310,672,538	306,887,763
LIABILITIES			
Provision for outstanding claims	13	99,252,371	88,183,803
Payables	14	27,972,993	24,913,106
Current tax liabilities		2,913,624	3,164,702
		130,138,988	116,261,611
Unearned premium reserves	15	58,720,112	48,637,390
Total liabilities		188,859,100	164,899,001
SHAREHOLDERS' FUND			
Share capital	16	100,000,000	100,000,000
Retained earnings	17	21,813,438	41,988,762
		121,813,438	141,988,762
Total liabilities and shareholders' fund		310,672,538	306,887,763

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

income statement

for the financial year ended 31 December 2007

	Note	2007 RM	2006 RM
Operating revenue	18	212,448,435	190,462,674
Surplus transferred from General Insurance Revenue Account		32,655,970	41,847,120
Non-insurance fund:			
Management expenses	19	9,650	(5,350)
Investment income	20	44,154	35,910
Profit before taxation		32,709,774	41,877,680
Taxation	22	(9,085,098)	(11,804,249)
Profit for the financial year		23,624,676	30,073,431
Earnings per share (sen)	23	23.62	30.07
Dividend per share (sen)	24	30.00	30.00

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

general insurance revenue account

for the financial year ended 31 December 2007

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium		77,297,807	48,382,630	10,360,596	64,307,585	200,348,618
Less: Reinsurance		(33,534,099)	(2,918,128)	(4,011,387)	(19,730,627)	(60,194,241)
Net premium		43,763,708	45,464,502	6,349,209	44,576,958	140,154,377
Less:						
Increase in unearned premium reserves	15	(2,429,694)	(1,850,094)	(467,685)	(5,335,249)	(10,082,722)
Earned premium		41,334,014	43,614,408	5,881,524	39,241,709	130,071,655
Net claims incurred	25	(12,221,010)	(34,188,998)	(3,736,529)	(22,464,801)	(72,611,338)
Net commission		(2,163,217)	(4,288,038)	(524,465)	(6,115,001)	(13,090,721)
Underwriting surplus before management expenses		26,949,787	5,137,372	1,620,530	10,661,907	44,369,596
Management expenses	19					(30,878,205)
Underwriting surplus						13,491,391
Investment income	20					12,055,663
Other income - net	21					7,108,916
Transfer to Income Statement						32,655,970

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

general insurance revenue account

for the financial year ended 31 December 2006

	Note	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
Gross premium		68,126,807	49,132,173	6,823,098	55,218,069	179,300,147
Less: Reinsurance		(29,064,253)	(2,997,877)	(2,195,257)	(19,470,927)	(53,728,314)
Net premium		39,062,554	46,134,296	4,627,841	35,747,142	125,571,833
Less:						
(Increase)/decrease in unearned premium reserves	15	(293,262)	1,166,313	(163,583)	554,884	1,264,352
Earned premium		38,769,292	47,300,609	4,464,258	36,302,026	126,836,185
Net claims incurred	25	(11,857,740)	(26,547,748)	(4,048,985)	(18,870,604)	(61,325,077)
Net commission		(2,671,825)	(4,355,819)	(266,241)	(5,395,583)	(12,689,468)
Underwriting surplus before management expenses		24,239,727	16,397,042	149,032	12,035,839	52,821,640
Management expenses	19					(28,037,044)
Underwriting surplus						24,784,596
Investment income	20					11,126,617
Other income - net	21					5,935,907
Transfer to Income Statement						41,847,120

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

statement of changes in equity

for the financial year ended 31 December 2007

	Note	Issued and fully paid ordinary shares No. of shares	RM1 each Nominal value RM	Distributable Retained earnings RM	Total RM
2007					
At beginning of the financial year		100,000,000	100,000,000	41,988,762	141,988,762
Profit for the financial year		-	-	23,624,676	23,624,676
Dividends for financial year ended					
– 31 December 2006 (final)	24	-	-	(21,900,000)	(21,900,000)
– 31 December 2007 (interim)	24	-	-	(21,900,000)	(21,900,000)
At end of the financial year		100,000,000	100,000,000	21,813,438	121,813,438
2006					
At beginning of the financial year		100,000,000	100,000,000	33,515,331	133,515,331
Profit for the financial year		-	-	30,073,431	30,073,431
Dividends for financial year ended					
– 31 December 2005 (final)	24	-	-	(21,600,000)	(21,600,000)
At end of the financial year		100,000,000	100,000,000	41,988,762	141,988,762

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

cash flow statement

for the financial year ended 31 December 2007

	Note	2007 RM	2006 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the financial year		23,624,676	30,073,431
Adjustments for:			
Profit on sale of investments		(10,363,317)	(3,615,862)
Allowance for/(write back of) diminution in value of investments		5,078,600	(2,131,844)
Allowance for bad and doubtful debts		793,046	278,768
Bad debts written off		4,133	–
Amortisation of premiums net of accretion of discounts		97,980	263,939
Depreciation of property, plant and equipment		1,329,986	1,167,720
Amortisation charge on prepaid lease rental		7,952	8,164
Profit on sale of property, plant and equipment		(49,026)	(21,622)
Increase/(decrease) in unearned premium reserves		10,082,722	(1,264,352)
Investment income		(12,197,797)	(11,426,466)
Unrealised (gain)/loss on foreign exchange		(6,606)	1,669
Taxation expense		9,085,098	11,804,249
Operating profit before changes in operating assets and liabilities		27,487,447	25,137,794
Purchase of investments		(140,470,724)	(76,653,320)
Proceeds from sale of investments		127,464,635	79,742,625
Interest received		10,133,318	9,389,217
Dividend received		1,985,657	1,771,563
Decrease/(increase) in fixed and call deposits		23,576,382	(8,692,034)
(Increase)/decrease in loans		(33,144)	79,389
Increase in amounts due from insureds, agents, brokers and reinsurers		(5,942,452)	(6,990,520)
(Increase)/decrease in other receivables		(1,618,482)	790,101
Increase in provision for outstanding claims		11,068,568	8,030,477
Increase/(decrease) in amounts due to insureds, agents, brokers and reinsurers		4,131,213	(969,163)
(Decrease)/increase in other payables		(1,071,326)	1,663,844
Cash generated from operations		56,711,092	33,299,973
Income taxes paid		(10,933,176)	(11,138,455)
Net cash generated from operating activities	26	45,777,916	22,161,518

cash flow statement

for the financial year ended 31 December 2007 (continued)

	Note	2007 RM	2006 RM
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,175,315)	(684,969)
Proceeds from sale of property, plant and equipment		58,100	22,931
Net cash used in investing activities	26	(1,117,215)	(662,038)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(43,800,000)	(21,600,000)
Net cash used in financing activities	26	(43,800,000)	(21,600,000)
Effects of exchange rate changes on cash and cash equivalents	26	3,515	(40)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		864,216	(100,560)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		54,005	154,565
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	12	918,221	54,005

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

notes to the financial statements

– 31 December 2007

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company, a public limited liability company, incorporated and domiciled in Malaysia, is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The holding company is RHB Capital Berhad and the Directors regard the Employees Provident Fund Board (“EPF”) as the ultimate holding company. RHB Capital Berhad is a company incorporated in Malaysia whilst EPF is a statutory body established in Malaysia.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in accordance with the Financial Reporting Standards, the MASB Approved Accounting Standards for Entities Other Than Private Entities, that are approved by Bank Negara Malaysia (“BNM”) under Section 90 of the Insurance Act, 1996, the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines/Circulars issued by BNM.

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(a) Standards and amendments to published standards that are effective

The new accounting standards and amendments to published standards effective and applicable for the Company’s financial year ended 31 December 2007 are as follows:

- FRS 117 Leases
- FRS 124 Related Party Disclosures
- Amendment to FRS 119₂₀₀₄ Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
- FRS 6 Exploration for and Evaluation of Mineral Resources

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards and amendments to published standards adopted by the Company. Apart from FRS 117 which requires the classification of leasehold land as prepaid lease payments, there were no significant changes to the Company’s accounting policies arising from the adoption of the above new accounting standards and/or amendments to published standards. The effects of the change in accounting policies are disclosed in Note 30 to this financial statements.

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

The new and revised standards and amendments to published standards that are applicable to the Company, which the Company has not early adopted, are as follows:

- Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations (effective for accounting periods beginning on or after 1 July 2007). This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in. This amendment is not relevant to the Company as the Company does not have any investments in a foreign operation.

notes to the financial statements

– 31 December 2007 (continued)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- FRS 112 Income Taxes (effective for accounting periods beginning on or after 1 July 2007). This revised standard removes the requirements that prohibit recognition of deferred tax on unutilised reinvestment allowances or other allowances in excess of capital allowances. This amendment is not relevant to the Company as the Company does not have any reinvestment allowances or other allowances in excess of capital allowances.
- FRS 120 Accounting for Government Grants and Disclosure of Government Assistance (effective for accounting periods beginning on or after 1 July 2007). This revised standard allows the alternative treatment of recording non-monetary government grant at nominal amount on initial recognition. FRS 120 is not relevant to the Company as the Company does not receive any government grants nor assistance.
- Other revised standards (effective for accounting periods beginning on or after 1 July 2007) that have no significant changes compared to the original standards:
 - FRS 107 Cash Flow Statements
 - FRS 111 Construction Contracts
 - FRS 118 Revenue
 - FRS 137 Provisions, Contingent Liabilities and Contingent Asset

The Company will apply these standards from financial periods beginning on 1 January 2008.

- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by the Malaysian Accounting Standards Board). The Company will apply this standard when effective. The Company has applied the transitional provision in FRS 139 which exempts entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of the Company.
- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with changes in the estimated timing or amount of the outflow of resources required to settle the obligation, or a change in the discount rate. This IC Interpretation is not relevant to the Company.
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with liability or equity classification of financial instruments which give the holder the right to request redemption, but subject to limits on whether it will be redeemed. This IC Interpretation is not relevant to the Company.
- IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environment Rehabilitation Funds (effective for accounting periods beginning on or after 1 July 2007). This interpretation deals with accounting by a contributor for its interests arising from decommissioning funds. This IC Interpretation is not relevant to the Company.
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for accounting periods beginning on or after 1 July 2007). This interpretation provides guidance on the recognition, in the financial statements of the producers, of liabilities for waste management under the European Union Directive in respect of sales of historical household equipment. This IC Interpretation is not relevant to the Company.
- IC Interpretation 7 Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 July 2007). This interpretation provides guidance on how to apply the requirements of FRS 129 in a reporting period in which an entity identifies the existence of hyperinflationary in the economy of its functional currency, when that economy was not hyperinflationary in the prior period. This IC Interpretation is not relevant to the Company.
- IC Interpretation 8 Scope of FRS 2 (effective for accounting periods beginning on or after 1 July 2007). This interpretation clarifies that FRS 2 Share-based Payment applies even in the absence of specifically identifiable goods and services. This IC Interpretation is not relevant to the Company.

notes to the financial statements

– 31 December 2007 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Accounting convention

The financial statements are prepared under the historical cost convention, unless otherwise indicated in the accounting policies below.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economics benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement or revenue account during the financial period in which they are incurred.

Property, plant and equipment are depreciated on the straight line method to write off the cost of the property, plant and equipment to their residual values over their estimated useful lives as follows:

Buildings	2%
Motor vehicles	20%
Furniture, fixtures and fittings, office equipment	20% – 33 $\frac{1}{3}$ %

Residual values and useful lives of assets are reviewed and adjusted if appropriate, at each balance sheet date.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See Note 3 (e) on the impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement or revenue account.

(c) Investments

Malaysian Government Securities and other 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 recognised in the income statement or revenue account.

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 not regarded as temporary, allowance is made against the value of that investment.

Unquoted investments are stated at cost and an allowance for diminution in value is made, where in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Such a decline is recognised as an expense in the financial year in which the decline is identified.

Gains and losses arising on disposals of investments are credited or charged to the income statement or revenue account.

notes to the financial statements

– 31 December 2007 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment income

Interest on loans is recognised on the accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six months, in which case, recognition of such interest is suspended. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

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

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

(e) Impairment of non-financial assets

The carrying values of assets that are subject to amortisation are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the fair value less cost to sell and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Non-financial assets that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to the income statement or revenue account immediately.

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

(f) Allowance for bad and doubtful debts

Known bad debts are written off and an allowance is made for any debt considered to be doubtful of collection. In addition, an allowance is made for any premiums, including agents' and reinsurers' balances, which remain outstanding for more than six months from the date on which they become receivable, except for outstanding motor premiums for which allowance is made for amounts outstanding for more than 30 days.

(g) General insurance underwriting results

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

Premium income

Premium income is recognised on the date of assumption of risk. Premiums in respect of risks incepted for which policies have not been raised as of the balance sheet date are accrued at the date.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

notes to the financial statements

– 31 December 2007 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) General insurance underwriting results (Continued)

Unearned premium reserves

Unearned premium reserves (“UPR”) represent the portion of premium income not yet earned at the balance sheet date. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- (iii) time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Provision for claims

Provision is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the balance sheet date. Provision is also made for the cost of claims together with related expenses incurred but not reported (“IBNR”) at the balance sheet date, based on an actuarial valuation by an independent actuary.

Acquisition costs

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

Inward treaty business

Premiums, claims and other transactions of inward treaty business are accounted for in the revenue account as and when the statements of account are received.

(h) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement or revenue account.

notes to the financial statements

– 31 December 2007 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income taxes

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise mainly from depreciation of property, plant and equipment, accretion of discounts/amortisation of premiums, general allowance for doubtful debts, unearned premium reserves, provision for gratuities and allowance for diminution in value of investments.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

(j) Employee benefits

(i) Short term employee benefits

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

(ii) Post-employment benefits – Defined contribution plan

The Company contributes to the Employees' Provident Fund, the national defined contribution plan. The Company's contributions to the defined contribution plan are charged to the income statement or revenue account in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(k) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the revenue account or income statement on a straight line basis over the period of the lease.

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

(l) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

notes to the financial statements

– 31 December 2007 (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Cash and cash equivalents

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

(n) Dividends

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

(o) Financial instruments

The basis of estimation of fair values for financial instruments is as follows:

- (i) The fair values of Malaysian Government Securities are based on the indicative middle prices obtained from BNM.
- (ii) The fair values of corporate debt securities are based on quotations from merchant bankers.
- (iii) The fair values of quoted shares, warrants, loan stocks and Real Estate Investment Trusts ('REITs') are based on the quoted market price.
- (iv) The fair values of loans are based on the discounted cash flows by using the interest rates at valuation date for similar loans.
- (v) The carrying amounts of other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The 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 outlined below.

- Incurred but not reported ('IBNR') claims are estimated based on the chain ladder method using cumulated incurred claims. The underlying assumption of the method is that the claims reporting patterns and the reserving practices of the Company are stable. The method also implicitly assumes that the past inflation patterns will continue into future projected years. The estimation is performed by an independent external actuary.

(b) Critical judgement in applying the entity's accounting policies

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

notes to the financial statements

– 31 December 2007 (continued)

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company carries out its financial risk management through internal control procedures, standard operating procedures, investment guidelines and strategies, and adherence to all rules and regulations as stipulated by the guidelines for investments issued by BNM.

Arising from the Company's financial instruments, the main financial risks which the Company is exposed to are interest rate risk, market risk, credit risk, liquidity risk and currency risk.

(a) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to the potential adverse changes in market interest rates.

Interest rate risk has an impact on the market values of investments in equities, REITs, fixed income securities and fixed deposits. The Company manages this risk by adopting a diversified approach to investment portfolios to achieve a desired overall interest rate profile based on regular reviews of interest rate outlook and economic condition.

(b) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of the potential adverse changes in market prices.

The Company's investments in equities, REITs and fixed income securities are outsourced to professional fund managers. To deal with this risk, the Investment Committee oversees the formulation of investment policies and strategies and meetings were held during the financial year to review and monitor the performance of the fund managers.

(c) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet payment obligations.

The Investment Committee manages the credit risk associated with investments by setting guidelines on minimum credit ratings and prevents risk concentrations by setting maximum credit exposure for each class of investment and for any one borrower or group of borrowers.

A credit control committee has been established to manage the credit risk of receivables.

(d) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments and obligations when they fall due.

This is managed by monitoring the daily and monthly projected and actual cash flows, and ensuring that a reasonable quantum of financial assets is maintained in liquid instruments at all times.

(e) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Company's exposure to currency risk is confined to a current account maintained with a bank in Singapore and certain expenses denominated in foreign currency. The current account was opened to facilitate the collection of premiums from reinsurers in Singapore and the amount involved is minimal.

notes to the financial statements

– 31 December 2007 (continued)

6 PROPERTY, PLANT AND EQUIPMENT

	Long term leasehold land RM	Buildings RM	Motor vehicles RM	Furniture, fixtures and fittings, office equipment RM	Total RM
2007					
Net book value					
At beginning of financial year	–	376,628	872,726	1,850,951	3,100,305
Additions	–	–	–	1,175,315	1,175,315
Disposals	–	–	(5,275)	(3,799)	(9,074)
Depreciation charge	–	(9,260)	(142,140)	(1,178,586)	(1,329,986)
At end of financial year	–	367,368	725,311	1,843,881	2,936,560
2006					
Net book value					
At beginning of financial year, as previously reported	663,643	381,541	867,468	2,335,356	4,248,008
Reclassified in accordance with FRS 117 to prepaid lease rental	(663,643)	–	–	–	(663,643)
As restated	–	381,541	867,468	2,335,356	3,584,365
Additions	–	–	45,719	639,250	684,969
Disposals	–	–	(1,309)	–	(1,309)
Depreciation charge	–	(4,913)	(39,152)	(1,123,655)	(1,167,720)
At end of financial year	–	376,628	872,726	1,850,951	3,100,305

notes to the financial statements

– 31 December 2007 (continued)

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Long term leasehold land RM	Buildings RM	Motor vehicles RM	Furniture, fixtures and fittings, office equipment RM	Total RM
At 31 December 2007					
Cost	–	422,756	1,539,302	13,437,800	15,399,858
Accumulated depreciation	–	(55,388)	(813,991)	(11,593,919)	(12,463,298)
Net book value	–	367,368	725,311	1,843,881	2,936,560
At 31 December 2006					
Cost					
As previously reported	729,499	422,756	1,722,293	12,374,211	15,248,759
Reclassified to prepaid lease rental	(729,499)	–	–	–	(729,499)
As restated	–	422,756	1,722,293	12,374,211	14,519,260
Accumulated depreciation					
As previously reported	(74,020)	(46,128)	(849,567)	(10,523,260)	(11,492,975)
Reclassified to prepaid lease rental	74,020	–	–	–	74,020
As restated	–	(46,128)	(849,567)	(10,523,260)	(11,418,955)
Net book value, as restated	–	376,628	872,726	1,850,951	3,100,305

7 PREPAID LEASE RENTAL**2007**

	RM
Carrying amounts	
At beginning of financial year	655,479
Amortisation for the financial year	(7,952)
At end of financial year	647,527

2006**Carrying amounts**

Reclassified from property, plant and equipment as a result of adopting FRS 117	663,643
As restated	663,643
Amortisation for the financial year	(8,164)
At end of financial year	655,479

Prepaid lease rental relates to leasehold land with unexpired periods of more than 50 years.

notes to the financial statements

– 31 December 2007 (continued)

8 INVESTMENTS

	2007		2006	
	Cost RM	Market Value RM	Cost RM	Market Value RM
Malaysian Government Securities	24,419,700		22,467,700	
Amortisation of premiums	(241,483)		(137,518)	
	24,178,217	24,043,600	22,330,182	22,100,000
Quoted in Malaysia:				
Shares of corporations	52,139,757	56,553,274	39,974,192	42,817,384
Real Estate Investment Trusts	1,330,247	1,309,765	1,190,221	1,173,292
	53,470,004	57,863,039	41,164,413	43,990,676
Allowance for diminution in value	(20,482)		(16,929)	
	53,449,522		41,147,484	
Unquoted:				
Corporate debt securities	91,619,084		82,540,452	
Amortisation of premiums net of accretion of discounts	(26,305)		(65,473)	
	91,592,779		82,474,979	
Allowance for diminution in value	(5,075,047)		–	
	86,517,732		82,474,979	
Fixed and call deposits with:				
Licensed banks	85,093,611		108,514,280	
Licensed investment bank	11,235,264		–	
Other corporations	3,000,000		14,390,977	
	99,328,875		122,905,257	
TOTAL INVESTMENTS	263,474,346		268,857,902	

The maturity structure of Malaysian Government Securities, corporate debt securities and fixed and call deposits above is as follows:

	2007 RM	2006 RM
Maturity within 12 months	100,328,875	136,300,209
Maturity after 12 months	109,695,949	91,410,209
	210,024,824	227,710,418

notes to the financial statements

– 31 December 2007 (continued)

9 DEFERRED TAX ASSETS

	2007 RM	2006 RM
At beginning of financial year	767,000	1,148,000
Credited/(debited) to income statement (Note 22)	1,597,000	(381,000)
At end of financial year	2,364,000	767,000

The movements in deferred tax assets during the financial year comprise the tax effects of the following:

	At beginning of financial year RM	(Debited)/ credited to income statement RM	At end of financial year RM
2007			
Excess of capital allowances over depreciation	(241,000)	109,000	(132,000)
Amortisation of premiums net of accretion of discounts	57,000	13,000	70,000
General allowance for doubtful debts	829,000	147,000	976,000
Unearned premium reserves	15,000	9,000	24,000
Provisions	102,000	(1,000)	101,000
Allowance for diminution in value of investments	5,000	1,320,000	1,325,000
Total	767,000	1,597,000	2,364,000
2006			
Excess of capital allowances over depreciation	(267,000)	26,000	(241,000)
Amortisation of premiums net of accretion of discounts	61,000	(4,000)	57,000
General allowance for doubtful debts	645,000	184,000	829,000
Unearned premium reserves	17,000	(2,000)	15,000
Provisions	91,000	11,000	102,000
Allowance for diminution in value of investments	601,000	(596,000)	5,000
Total	1,148,000	(381,000)	767,000

notes to the financial statements

– 31 December 2007 (continued)

10 LOANS

	2007 RM	2006 RM
Mortgage loans	402,006	459,371
Other secured loans	611,541	521,234
Unsecured loans	2,003	1,801
	1,015,550	982,406
Receivable within 12 months	271,449	216,707
Receivable after 12 months	744,101	765,699
	1,015,550	982,406

11 RECEIVABLES

Trade receivables

Outstanding premiums including agents, brokers and co-insurers balances	30,944,210	24,958,884
Allowance for doubtful debts	(2,899,256)	(2,146,021)
	28,044,954	22,812,863
Amount due from reinsurers and ceding companies	6,546,148	6,590,064
Allowance for doubtful debts	(1,978,698)	(1,938,887)
	4,567,450	4,651,177
	32,612,404	27,464,040

Other receivables

Other receivables, deposits and prepayments	1,004,714	821,459
Amount due from Malaysian Motor Insurance Pool	1,545,959	1,547,158
Amount due from stock brokers	1,436,426	–
Interest income due and accrued	2,583,747	2,624,187
Dividend income receivable	133,084	13,822
	6,703,930	5,006,626
	39,316,334	32,470,666

12 CASH AND CASH EQUIVALENTS

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

notes to the financial statements

– 31 December 2007 (continued)

13 PROVISION FOR OUTSTANDING CLAIMS

	2007 RM	2006 RM
Provision for outstanding claims	149,029,696	148,001,804
Less: Recoverable from reinsurers thereon	(49,777,325)	(59,818,001)
Net outstanding claims	99,252,371	88,183,803

14 PAYABLES

Trade payables

Amount due to agents, brokers, insureds and co-insurers	5,800,522	5,526,744
Amount due to reinsurers and ceding companies	12,554,216	8,696,781
	18,354,738	14,223,525

Other payables

Other payables	1,919,938	1,391,973
Cash collaterals held on behalf of insureds	636,791	2,090,640
Amount due to stock brokers	–	1,076,715
Accrued liabilities	7,061,526	6,130,253
	9,618,255	10,689,581
	27,972,993	24,913,106

15 UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2007					
At beginning of financial year	16,140,448	20,584,128	1,211,737	10,701,077	48,637,390
Increase in reserves	2,429,694	1,850,094	467,685	5,335,249	10,082,722
At end of financial year	18,570,142	22,434,222	1,679,422	16,036,326	58,720,112
2006					
At beginning of financial year	15,847,186	21,750,441	1,048,154	11,255,961	49,901,742
Increase/(decrease) in reserves	293,262	(1,166,313)	163,583	(554,884)	(1,264,352)
At end of financial year	16,140,448	20,584,128	1,211,737	10,701,077	48,637,390

notes to the financial statements

– 31 December 2007 (continued)

16 SHARE CAPITAL

	2007 RM	2006 RM
Ordinary shares of RM1 each: Authorised:		
At beginning and end of financial year	100,000,000	100,000,000
Issued and fully paid:		
At beginning and end of financial year	100,000,000	100,000,000

17 RETAINED EARNINGS

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income accounts to pay dividends out of its entire retained earnings as at 31 December 2007.

18 OPERATING REVENUE

	2007 RM	2006 RM
Gross premium	200,348,618	179,300,147
Investment income (Note 20):		
Insurance fund	12,055,663	11,126,617
Non-insurance fund	44,154	35,910
	212,448,435	190,462,674

19 MANAGEMENT EXPENSES

Personnel costs	16,445,491	15,449,376
Establishment costs	3,493,741	3,143,028
Marketing costs	3,083,887	2,935,561
Administrative and general expenses	7,845,436	6,514,429
	30,868,555	28,042,394

notes to the financial statements

– 31 December 2007 (continued)

19 MANAGEMENT EXPENSES (CONTINUED)

	2007 RM	2006 RM
The above expenditure is further analysed as follows:		
Insurance fund		
Staff salary and bonus	12,774,132	12,362,453
Defined contribution plan	2,166,799	1,929,641
Other staff benefits	1,504,560	1,157,282
Staff costs	16,445,491	15,449,376
Executive Directors' remuneration: Other emoluments	649,950	–
Non-Executive Directors' remuneration: Fee	319,836	320,000
Other emoluments	185,315	200,000
	505,151	520,000
Auditors' remuneration	72,000	72,000
Rental of offices	1,826,396	1,648,076
Depreciation of property, plant and equipment	1,329,986	1,167,720
Insurance Guarantee Scheme Fund levies	498,967	445,177
Allowance for bad and doubtful debts	793,046	278,768
Bad debts written off	4,133	–
Other expenses	8,753,085	8,455,927
	30,878,205	28,037,044
Non-insurance fund		
Corporate affairs expenses	(9,650)	5,350
	30,868,555	28,042,394

The estimated monetary value of benefits provided to certain Directors during the financial year by way of usage of the Company's assets amounted to RM60,700 (2006: RM35,500).

The remuneration, including benefit-in-kinds, attributable to the Chief Executive Officer of the Company who is also the Executive Director of the Company during the financial year amounted to RM675,150 (2006: RM596,400).

notes to the financial statements

– 31 December 2007 (continued)

20 INVESTMENT INCOME

	2007 RM	2006 RM
Insurance fund		
Interest from:		
Malaysian Government Securities	842,375	840,480
Corporate debt securities	5,187,235	5,215,982
Loans	17,893	20,755
Fixed and call deposits	3,924,211	3,527,954
Amortisation of premiums net of accretion of discounts	(97,980)	(263,939)
Gross dividends from shares quoted in Malaysia	2,181,929	1,785,385
	12,055,663	11,126,617
Non-insurance fund		
Interest from fixed deposits	44,154	35,910
	12,099,817	11,162,527

21 OTHER INCOME

Insurance fund		
Profit on sale of property, plant and equipment	49,026	21,622
Profit on sale of investments	10,363,317	3,615,862
(Allowance for)/write back of diminution in value of investments	(5,078,600)	2,131,844
Sundry income	472,374	182,096
Reversal of bond collaterals	1,308,362	–
Interest paid to reinsurers	(9,152)	(8,968)
Unrealised gain/(loss) on foreign exchange	6,606	(1,669)
Realised loss on foreign exchange	(3,017)	(4,880)
Other income - net	7,108,916	5,935,907

22 TAXATION

Malaysian taxation:		
Current taxation	10,682,098	11,423,249
Deferred taxation (Note 9)	(1,597,000)	381,000
	9,085,098	11,804,249
Current taxation		
Current financial year	10,658,000	11,499,000
Under/(over) accrual in respect of prior financial years	24,098	(75,751)
Deferred taxation		
Origination and reversal of temporary differences	(1,597,000)	381,000
	9,085,098	11,804,249

notes to the financial statements

– 31 December 2007 (continued)

22 TAXATION (CONTINUED)

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	2007 RM	2006 RM
Profit before taxation	32,709,774	41,877,680
Tax calculated at a tax rate of 27% (2006: 28%)	8,831,639	11,725,750
Change in tax rate	116,209	–
Expenses not deductible for tax purposes	268,388	219,321
Income exempted for tax purposes	(132,982)	(53,818)
Income subject to different tax rate	(22,254)	(11,253)
Under/(over) accrual in respect of prior financial years	24,098	(75,751)
Tax expense	9,085,098	11,804,249

23 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM23,624,676 (2006: RM30,073,431) divided by the number of ordinary shares in issue of 100,000,000 (2006: 100,000,000) during the financial year.

24 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2007 are as follows:

	2007		2006	
	Gross dividend per share Sen	Amount of dividend, net of tax RM	Gross dividend per share Sen	Amount of dividend, net of tax RM
Interim dividend paid	30.0	21,900,000	–	–
Proposed final dividend	–	–	30.0	21,900,000

The Directors do not recommend any final dividend to be paid for the current financial year.

notes to the financial statements

– 31 December 2007 (continued)

25 NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine, Aviation & Transit RM	Miscellaneous RM	Total RM
2007					
Gross claims paid less salvage	24,352,014	29,215,586	3,919,758	27,638,087	85,125,445
Reinsurance recoveries	(13,945,308)	(1,557,351)	(1,246,222)	(6,833,794)	(23,582,675)
Net claims paid	10,406,706	27,658,235	2,673,536	20,804,293	61,542,770
Net outstanding claims:					
At end of financial year	14,191,230	43,570,111	5,413,160	36,077,870	99,252,371
At beginning of financial year	(12,376,926)	(37,039,348)	(4,350,167)	(34,417,362)	(88,183,803)
Net claims incurred	12,221,010	34,188,998	3,736,529	22,464,801	72,611,338
2006					
Gross claims paid less salvage	28,404,888	29,672,242	2,891,358	25,989,539	86,958,027
Reinsurance recoveries	(17,613,407)	(1,560,970)	(822,314)	(13,666,736)	(33,663,427)
Net claims paid	10,791,481	28,111,272	2,069,044	12,322,803	53,294,600
Net outstanding claims:					
At end of financial year	12,376,926	37,039,348	4,350,167	34,417,362	88,183,803
At beginning of financial year	(11,310,667)	(38,602,872)	(2,370,226)	(27,869,561)	(80,153,326)
Net claims incurred	11,857,740	26,547,748	4,048,985	18,870,604	61,325,077

26 CASH FLOW SEGMENT INFORMATION

	Insurance fund RM	2007 Non- insurance fund RM	Total RM	Insurance fund RM	2006 Non- insurance fund RM	Total RM
Cash flows from:						
Operating activities	45,751,034	26,882	45,777,916	22,169,373	(7,855)	22,161,518
Investing activities	(1,117,215)	–	(1,117,215)	(662,038)	–	(662,038)
Financing activities	–	(43,800,000)	(43,800,000)	–	(21,600,000)	(21,600,000)
Effects of exchange rate changes on cash and cash equivalents	3,515	–	3,515	(40)	–	(40)
Transfer from insurance fund to non-insurance fund	(43,773,118)	43,773,118	–	(21,607,855)	21,607,855	–
	864,216	–	864,216	(100,560)	–	(100,560)
Net increase/(decrease) in cash and cash equivalents	864,216	–	864,216	(100,560)	–	(100,560)
Cash and cash equivalents:						
At beginning of financial year	54,005	–	54,005	154,565	–	154,565
At end of financial year	918,221	–	918,221	54,005	–	54,005

notes to the financial statements

– 31 December 2007 (continued)

27 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

The holding company is RHB Capital Berhad and the Directors regard the Employees' Provident Fund Board ("EPF") as the ultimate holding company. RHB Capital Berhad is a company incorporated in Malaysia whilst EPF is a statutory body established in Malaysia.

By virtue of being a subsidiary of RHB Capital Berhad and EPF, the Company is deemed related to parties related to RHB Capital Berhad and EPF. The related parties of RHB Capital Berhad and EPF are disclosed in the financial statements of those companies.

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

Related parties	Relationship
EPF	Ultimate holding company (effective 1 July 2007)*
RHB Capital Berhad	Holding company
Subsidiaries of EPF as disclosed in its financial statements	Subsidiary companies of the ultimate holding company
Subsidiaries of RHB Capital Berhad as disclosed in its financial statements	Subsidiary companies of the holding company
Key management personnel	Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel of the Company includes all the Directors of the Company and certain members of senior management of the Company.

* Rashid Hussain Berhad ceased to be a parent of holding company effective 1 July 2007.

The following are the significant related party transactions and balances in respect of transactions entered into during the current financial year. The related party transactions described below were on terms and conditions no more favourable than those available on similar transactions to the Company's other customers.

Related party transactions	Nature of transaction	2007 RM	2006 RM
With subsidiaries of ultimate holding company	Insurance premium earned	634,384	–
With subsidiaries of holding company	Interest income	1,419,548	1,234,568
	Insurance premium earned	18,437,800	19,129,599
	Commission paid and payable	(5,224,995)	(4,988,332)
	Rental expense	(1,258,622)	(1,177,588)
With key management personnel	Insurance premium earned	23,870	15,534
	Claims incurred	(9,663)	(6,150)

notes to the financial statements

– 31 December 2007 (continued)

27 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Related party balances	Types of balances	Note	2007 RM	2006 RM
With subsidiaries of ultimate holding company	Fixed and call deposits		3,000,000	–
With subsidiaries of holding company	Bank balances	12	817,065	(43,738)
	Fixed and call deposits	8	11,511,445	45,107,253
	Insurance premium	11	2,488,394	842,778
	Investment in corporate debts securities	8	5,015,973	–
With key management personnel	Provision for outstanding claims	13	(10,000)	(4,000)

Key management personnel

The remuneration of key management personnel is as follows:

	2007 RM	2006 RM
Short-term employee benefits		
– Fees	319,836	320,000
– Salary and other remuneration	835,265	771,200
– Benefits-in-kind	60,700	60,700

28 CAPITAL COMMITMENTS

Capital expenditure on property, plant and equipment approved by Directors but not provided for in the financial statements amounted to approximately:

	2007 RM	2006 RM
Authorised and contracted for	252,947	282,000

notes to the financial statements

– 31 December 2007 (continued)

29 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The following table provides information about financial assets and financial liabilities, showing the weighted average effective interest rate and the maturity date of each class of interest bearing financial instrument in the balance sheet.

At 31 December 2007

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
Financial assets						
Investments:						
– Malaysian Government Securities	–	–	22,226,170	1,952,047	24,178,217	3.82
– Shares quoted in Malaysia	52,139,757	–	–	–	52,139,757	–
– Real Estate Investment Trusts, quoted in Malaysia	1,309,765	–	–	–	1,309,765	–
– Corporate debt securities	–	1,000,000	57,411,311	28,106,421	86,517,732	5.66
– Fixed and call deposits	–	99,328,875	–	–	99,328,875	3.56
Loans	613,544	–	109,031	292,975	1,015,550	4.12
Other receivables	4,781,327	–	–	–	4,781,327	
Cash and cash equivalents	918,221	–	–	–	918,221	
	59,762,614	100,328,875	79,746,512	30,351,443	270,189,444	
Other financial assets*					34,158,363	
Total financial assets					304,347,807	
Other assets					6,324,731	
Total assets as per balance sheet					310,672,538	
Financial liabilities						
Other payables	8,129,371	–	–	–	8,129,371	
Other financial liabilities*					118,632,361	
Total financial liabilities					126,761,732	
Other liabilities					62,097,368	
Total liabilities as per balance sheet					188,859,100	

notes to the financial statements

– 31 December 2007 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk (Continued)

At 31 December 2006

	Non-interest bearing RM	1 year or less RM	1 to 5 years RM	More than 5 years RM	Total carrying amount RM	Weighted average effective interest rate %
Financial assets						
Investments:						
– Malaysian Government Securities	–	–	22,330,182	–	22,330,182	3.82
– Shares quoted in Malaysia	39,974,192	–	–	–	39,974,192	–
– Real Estate Investment Trusts, quoted in Malaysia	1,173,292	–	–	–	1,173,292	–
– Corporate debt securities	–	13,394,952	25,172,385	43,907,642	82,474,979	6.64
– Fixed and call deposits	–	122,905,257	–	–	122,905,257	3.62
Loans	523,035	–	142,160	317,211	982,406	4.14
Other receivables	3,177,258	–	–	–	3,177,258	–
Cash and cash equivalents	54,005	–	–	–	54,005	–
	44,901,782	136,300,209	47,644,727	44,224,853	273,071,571	
Other financial assets*					29,011,197	
Total financial assets					302,082,768	
Other assets					4,804,995	
Total assets as per balance sheet					306,887,763	
Financial liabilities						
Other payables	7,825,100	–	–	–	7,825,100	
Other financial liabilities*					104,861,392	
Total financial liabilities					112,686,492	
Other liabilities					52,212,509	
Total liabilities as per balance sheet					164,899,001	

* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts and employee benefits is not shown as it is excluded from the scope of FRS 132 "Financial Instruments: Disclosure and Presentation."

notes to the financial statements

– 31 December 2007 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Credit risk

The Company's credit risk exposure is analysed as follows:

	Carrying amount	
	2007 RM	2006 RM
Analysed by rating:		
Unquoted corporate debt securities		
AAA	18,367,998	18,401,194
AA	35,093,421	37,460,822
A	33,056,313	26,612,963
D	–*	–
	86,517,732	82,474,979
Loans		
No rating	1,015,550	982,406
	87,533,282	83,457,385

* Full allowance for diminution in value of investments held in D rated corporate debt securities, was made during the current financial year.

The rating categories are based on the grading of reputable rating agencies.

	Carrying amount	
	2007 RM	2006 RM
Analysed by industries:		
Unquoted corporate debt securities		
Manufacturing	19,433,661	6,089,377
Electricity, gas and water	28,786,345	14,284,631
Construction	10,409,743	16,676,642
Real Estate	7,101,111	12,149,654
Transport, storage and communication	1,007,590	5,860,687
Finance, insurance and business services	9,111,324	10,000,347
General commerce	3,685,817	3,491,398
Agriculture	–	5,249,900
Hospital	4,905,502	8,672,343
Plantation	1,556,719	–
Wholesale & retail trade and restaurants & hotels	519,920	–
	86,517,732	82,474,979
Loans	1,015,550	982,406
	87,533,282	83,457,385

notes to the financial statements

– 31 December 2007 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Foreign currency risk

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date, stated in Ringgit Malaysia or foreign currency stated in Ringgit Malaysia equivalent, are set out below:

At 31 December 2007

	Ringgit Malaysia RM	Singapore Dollar RM	Total RM
Financial assets			
Investments:			
– Malaysian Government Securities	24,178,217	–	24,178,217
– Shares quoted in Malaysia	52,139,757	–	52,139,757
– Real Estate Investment Trusts quoted in Malaysia	1,309,765	–	1,309,765
– Corporate debt securities	86,517,732	–	86,517,732
– Fixed and call deposits	99,328,875	–	99,328,875
Loans	1,015,550	–	1,015,550
Other receivables	4,781,327	–	4,781,327
Cash and cash equivalents	862,226	55,995	918,221
	270,133,449	55,995	270,189,444
Other financial assets*			34,158,363
Total financial assets			304,347,807
Other assets			6,324,731
Total assets as per balance sheet			310,672,538
Financial liabilities			
Other payables	8,129,371	–	8,129,371
Other financial liabilities*			118,632,361
Total financial liabilities			126,761,732
Other liabilities			62,097,368
Total liabilities as per balance sheet			188,859,100

notes to the financial statements

– 31 December 2007 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)**(c) Foreign currency risk (Continued)****At 31 December 2006**

	Ringgit Malaysia RM	Singapore Dollar RM	Total RM
Financial assets			
Investments:			
– Malaysian Government Securities	22,330,182	–	22,330,182
– Shares quoted in Malaysia	39,974,192	–	39,974,192
– Real Estate Investment Trusts quoted in Malaysia	1,173,292	–	1,173,292
– Corporate debt securities	82,474,979	–	82,474,979
– Fixed and call deposits	122,905,257	–	122,905,257
Loans	982,406	–	982,406
Other receivables	3,177,258	–	3,177,258
Cash and cash equivalents	(2,661)	56,666	54,005
	273,014,905	56,666	273,071,571
Other financial assets*			29,011,197
Total financial assets			302,082,768
Other assets			4,804,995
Total assets as per balance sheet			306,887,763
Financial liabilities			
Other payables	7,825,100	–	7,825,100
Other financial liabilities*			104,861,392
Total financial liabilities			112,686,492
Other liabilities			52,212,509
Total liabilities as per balance sheet			164,899,001

* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts and employee benefits is not shown as it is excluded from the scope of FRS 132 "Financial Instruments: Disclosure and Presentation."

notes to the financial statements

– 31 December 2007 (continued)

29 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date approximated their fair values, except as set out as below:

At 31 December 2007

	Carrying amount RM	Fair value RM
Investments:		
– Malaysian Government Securities	24,178,217	24,043,600
– Shares quoted in Malaysia	52,139,757	56,553,274
– Corporate debt securities	86,517,732	86,562,712
Loans	1,015,550	906,244
	163,851,256	168,065,830

At 31 December 2006

Investments:		
– Malaysian Government Securities	22,330,182	22,100,000
– Shares quoted in Malaysia	39,974,192	42,817,384
– Corporate debt securities	82,474,979	83,212,374
Loans	982,406	866,210
	145,761,759	148,995,968

The carrying amounts of Malaysian Government Securities and loans were not reduced to their fair values, as these investments are held for the long term.

30 EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW FRS 117 - LEASES

The adoption of FRS 117 has resulted in a change in accounting policy relating to classification of leasehold land. The up-front payment made for leasehold land represents prepaid lease rental and is amortised on a straight-line basis over the remaining lease term. Prior to 1 January 2007, leasehold land was classified as property, plant and equipment and stated at cost less accumulated depreciation.

Upon the adoption of FRS 117, the unamortised carrying amount of leasehold land is classified as prepaid lease rental in accordance with the transitional provisions of FRS 117. The reclassification of leasehold land as prepaid lease rental has been accounted for retrospectively and the following comparative figures as at 31 December 2006 have been restated:

	As previously reported RM	FRS 117 RM	As restated RM
Property, plant and equipment	3,755,784	(655,479)	3,100,305
Prepaid lease rental	–	655,479	655,479

The adoption of this FRS has no impact to the Company's financial results.

31 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 18 January 2008.

statement by directors

Pursuant to Section 169 (15) of the Companies Act, 1965, we, Dato' Mohd Salleh Hj Harun and Koh Heng Kong, two of the Directors of RHB Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 18 to 51 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2007 and of its results and cash flows for the financial year ended 31 December 2007 in accordance with MASB Approved Accounting Standards for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 18 January 2008.

DATO' MOHD SALLEH HJ HARUN
CHAIRMAN

Kuala Lumpur
28 February 2008

KOH HENG KONG
MANAGING DIRECTOR

statutory declaration

Pursuant to Section 169(16) of the Companies Act, 1965, I, Koh Heng Kong, being the Managing Director primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 18 to 51 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
declared at Kuala Lumpur)
on 28 February 2008)

Before me,)

KOH HENG KONG

COMMISSIONER FOR OATHS
AHMAD B. LAYA

Kuala Lumpur
28 February 2008

report of the auditors

to the members of RHB Insurance Berhad

We have audited the financial statements set out on pages 18 to 51. 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 these 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 approved auditing standards 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and MASB Approved Accounting Standards for Entities Other than Private Entities so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Company as at 31 December 2007 and of the results and cash flows of the Company for the financial year ended on that date;

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.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/08 (J))
Partner of the firm

Kuala Lumpur
28 February 2008

RHB Insurance branches

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 Tel : (04) 228 0311/228 0115
 Fax : (04) 228 0310
- 2) **Melaka**
 No 339-A
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 Taman Melaka Raya
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- 3) **Kota Bharu**
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- 4) **Sandakan**
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- 5) **Ipoh**
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- 6) **Johor Bahru**
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- 7) **Kota Kinabalu**
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 Tel : (088) 216 192/216 193
 Fax : (088) 240 310
- 8) **Sibu**
 No.91, Ground Floor
 Jalan Kampong Nyabor
 96000 Sibu
 Sarawak
 Tel : (084) 331 660/331 876
 Fax : (084) 331 873
- 9) **Kajang**
 No.7, Jalan Raja Haroun
 43000 Kajang
 Selangor
 Tel : (03) 8733 6479/8737 6067
 Fax : (03) 8737 9348
- 10) **Kuantan**
 1st Floor
 No 74/1, Jalan Teluk Sisek
 25000 Kuantan
 Pahang
 Tel : (09) 515 7115/516 1749
 Fax : (09) 516 3372
- 11) **Kuching**
 G8 & 108, Ground & 1st Floor
 Crown Towers,
 No.88, Jalan Pending,
 93450 Kuching
 Sarawak
 Tel : 082 - 482 642/482 643
 Fax : 082 - 482 641
- 12) **Klang**
 No.2A (Ground & 1st Floor)
 Jalan Tiara 2D/KU1,
 Bandar Baru Klang,
 41150 Klang, Selangor.
 Tel : 03-3342 0026
 Fax : 03-3342 1026