

Annual Report 2007



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Corporate Information

Board of Directors

Alwyn Graeme Anschutz
FAIM, FAICD

Y. Bhg. Dato' Nik Mohamed
Din Bin Datuk Nik Yusoff
DIMP, PGBK, JMN,
Barrister-at-Law (Lincoln's Inn, London)

Michael John Goodwin
BVSc, FIAA, FAICD

Lau Cheong Koon
ACA

James David Rudkin
B. Comm

Graeme John Evans
ANZIIF (Snr Assoc)

Tai Lee Heng
FAIA

Company Secretaries

Tan Lian Yap, Jessie

Lim Joo Leong
CA(M), FCCA

Registered Office

No.638, Level 6, Block B1,
Pusat Dagang Setia Jaya
(Leisure Commerce Square)
No.9, Jalan PJS 8/9,
46150 Petaling Jaya,
Selangor Darul Ehsan,
Malaysia.

Auditors

PricewaterhouseCoopers

Solicitors

Skrine

Bankers

HSBC Bank Malaysia Berhad
Alliance Bank Malaysia Berhad
Malayan Banking Berhad
Citibank Berhad
Standard Chartered Bank Malaysia Berhad

Board Of Directors



Alwyn Graeme Anschutz

Mr Anschutz is an independent director who was appointed to the Board on 25 November 1991. He is Chairman of the Board, Chairman of the Audit and Risk Management Committees and sits on the Remuneration and Nomination Committees. Mr Anschutz has over 43 years experience in the insurance industry, and has held many senior management positions.



Y. Bhg. Dato' Nik Mohamed Din Bin Datuk Nik Yusoff

Dato' Nik is an independent director who was appointed to the Board on 1 October 2002. He is also Chairman of the Nomination and Remuneration Committees, and is a member of the Audit and Risk Management Committees. He is a barrister-at-law from Lincoln's Inn, London. He was a magistrate with the Malaysian Judicial Services from 1968 to 1969 and practiced as a lawyer from 1970 to 1983. From 1984 to 1988, he was a stockbroker and subsequently Chairman and Executive Chairman of the Kuala Lumpur Stock Exchange till 1998. He is currently the Executive Chairman of OSK Holdings Berhad, OSK Property Holdings Berhad and OSK Ventures International Berhad and a Director of OSK Investment Bank Berhad.



James David Rudkin

Mr Rudkin is a non-executive director, appointed on 4 September, 2007, and is a member of the Risk Management, Nomination and Remuneration Committees. He is currently Chief Risk Officer of QBE Insurance – Australia Asia Pacific and has a finance and accounting background. Mr Rudkin has over 25 years experience in the general insurance industry and has held a number of senior management positions within the QBE Group.



Michael John Goodwin

Prior to joining the Insurance Industry, Dr. Goodwin worked as a Veterinary Surgeon for 10 years in small animal practice and for the thoroughbred racing industry. He then gained his Actuarial qualifications and took on a position with Mercantile Mutual insurance company in Australia with responsibility for capital management, pricing, reserving and reinsurance strategies. He was appointed Deputy General Manager of the Australian joint venture between QBE and Mercantile Mutual in 1999 at its formation. In 2004 he was appointed as the Principal Officer of QBE in Singapore and in 2007 was appointed Chief Executive Officer of QBE's Asia Pacific operations.

4 Board Of Directors (cont'd)



Lau Cheong Koon

Mr Lau is currently the President - Corporate of MBf Corporation Berhad. He was appointed to the Board on 23 July 2004 and is a member of the Risk Management, Audit, Remuneration and Nomination Committees. He graduated with a Distinction in Accounting from London Guildhall University, United Kingdom and is an associate member of the Institute of Chartered Accountants in England and Wales and is also a member of the Malaysian Institute of Accountants. His previous positions include Audit Manager with Arthur Young; Assistant Director with Security Pacific Hoare Govett Equity Ventures Ltd.; Finance Director of Family Golf Ltd.; Group Financial Controller of Causeway Capital Ltd.; and Director of European Acquisition Capital Ltd.



Graeme John Evans

Mr Evans was appointed Executive Director on 6th May 2004 and is the Company's Chief Executive Officer/General Manager. He has held senior management and General Management positions in the United Kingdom, Saudi Arabia, Hong Kong, Singapore, Thailand, Australia, New Zealand, Japan and Malaysia. Thirteen of his thirty nine years of experience within the general insurance industry have been with the QBE Group or its associated entities.



Tai Lee Heng

Mr Tai was appointed as an executive director on 23 January 1996. He started his career in the insurance industry in 1967 with a two year stint in underwriting, and later held senior finance and accounting responsibilities in a large insurance company before joining QBE Malaysia in 1991. He is currently the Deputy General Manager - Operations.

Central Office Managers

Management Team

Chief Executive Officer & General Manager
Graeme John Evans
ANZIIF (Snr Assoc)

Deputy General Manager - Operations
Tai Lee Heng
FAIA

Financial Controller
Lim Joo Leong
CA(M), FCCA

Manager - Corporate Services
Lt Col (R) Ranjit Singh
MSc HRM & Training

Technical Team

Manager - Portfolio Development & Underwriting
Justin Ng Hoong Wye
B.A. (Hons)

Claims Manager
Hardev Singh s/o Mahindar Singh
B.Sc. (Hons.) (Malaya), AMII, ACII, MBA (UK)

IT Manager
Chong Fong Kong
B.Sc. (Information System)

6 Business Unit Managers

Broker Business Unit
Manager - Commercial Lines
Catherine Goh Kar Geoh
AMII, ANZIIF (Snr. Assoc)

Ipoh
Regional Manager
Charlie Wong Loy Heng
ANZIIF (Snr. Assoc) CIP

Corporate and Partnership
Business Unit
Regional Manager
Au Peng Wah
ANZIIF (Aff) CIP

Sarawak/Kuching
Regional Manager
Law Hieng Ming

Kuala Lumpur
Regional Manager
Sia Teong Tuan
ANZIIF (Snr. Assoc) CIP

Sibu
Branch Manager
Wong Ing Sing

Sabah/Kota Kinabalu
Regional Manager
Johnny Ng Hau Poh *B.S.K*

Penang
Regional Manager
Jimmy Lee Chye Keat
AMII, ACII, ACIS

Sandakan
Branch Manager
Robert Chan Kian Jack

Johor Bahru
Regional Manager
Vincent Chu Chong Fatt

Chairman's Statement

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

The implementation by Bank Negara Malaysia of the Risk Based Capital (RBC) framework is expected to take effect from 1st January 2009 and I am pleased to report that QBE Insurance (Malaysia) Berhad has already met the benchmark requirements under RBC and the Company's Capital Adequacy Ratio (CAR) is significantly higher than the prescribed ratio of 130%.

In 2007 we continued to witness significant pricing pressure on non-tariff classes of business which has inhibited growth at a time when new capacity has entered the market. With this abundance of capacity available we expect the prevailing 'soft' market conditions to continue for some months ahead.

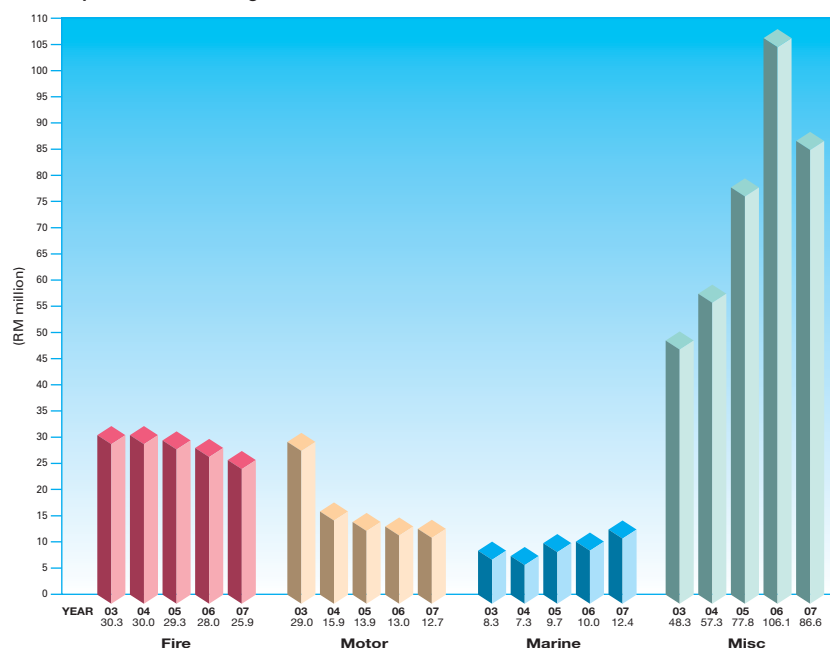
In these challenging times it is especially pleasing to report that the Company achieved a 69% increase in pre-tax profit of RM25,275,517 (2006, RM14,942,731) on operating revenue of RM147,145,438 (RM166,017,839). A net combined operating ratio of 88.0% (91.7%) was achieved arising from an improved incurred loss ratio (42.2% compared to 45.2% in 2006), and reduced management expenses.

Modest growth was reported in the Marine, Aviation and Professional Risks portfolios while Property Risks portfolios while Property business reflected negative growth resulting from renewal pricing reductions and loss of some large accounts due to underwriting considerations. In 2006 the Liability portfolio benefited from significant premium adjustments on Oil and Gas business which were not repeated in 2007.

Investment and other income increased by 85.4% to RM16,788,711 arising largely from gains on disposal of equity investments and from increased interest on term deposits.

Gross Premium

Important Insurance Figures as at 31 December 2007



Chairman's Statement (cont'd)

During the year the Company installed new information technology which is designed to generate greater administrative efficiencies and will ultimately lead to the production of more comprehensive management information and improved service delivery. Further enhancements will be implemented during 2008.

Various realistic disaster recovery and business continuity tests were conducted during the year with successful outcomes. Compliance remains at the forefront of the Company's attentions and the Board is supportive of Bank Negara Malaysia's initiatives to promote a risk-based approach to regulatory oversight of the industry. In this environment the Company is well-placed to continue meeting the security and reliability expectations of our customers.

In August Mr. Vince McLenaghan resigned his Directorship having served on the Board for nine years. On behalf of my fellow Directors, I would like to acknowledge Mr. McLenaghan's valuable contribution and counsel and also welcome Mr. James Rudkin who was appointed to the Board in September. It is appropriate, also, to acknowledge with appreciation the impending retirement of Mr. Tai Lee Heng, Executive Director and Deputy General Manager of the Company, who departs in the early part of 2008 after 15 years of service.

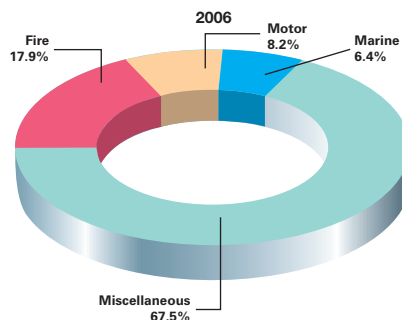
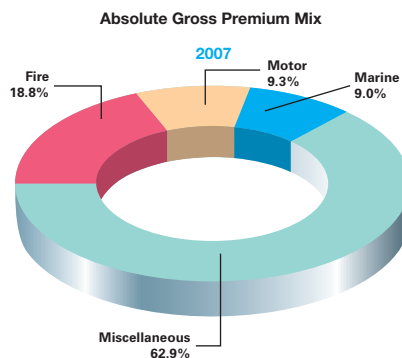
Special thanks are also due to our customers, agents, brokers and staff who have remained loyal and supportive during the sometimes challenging transitional phase of systems upgrades. In the spirit of collaboration, management looks forward to strengthening relationships with intermediaries and customers in the year ahead.

5 Years Statistics (RM'000)

	2003	2004	2005	2006	2007
Absolute gross premium	115,940	110,473	130,737	157,182	137,646
Earned premium	87,485	75,566	68,706	71,098	71,203
Underwriting profit	(1,560)	11,341	9,320	5,872	8,521
Investment & other income	8,846	8,239	11,295	9,054	16,789
Profit before tax	7,286	19,530	20,595	14,943	25,276
Shareholders' funds	105,628	123,882	123,644	119,646	132,984
Total assets	289,114	286,268	282,474	275,025	287,765



Alwyn Graeme Anschutz
Chairman



Reports And Financial Statements

31 December 2007

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10 Directors' Report

For the financial year ended 31 December 2007

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

Principal Activity

The Company 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.

Financial Results

Net profit for the financial year	RM 17,421,449
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Dividends

The dividend paid or declared by the Company since 31 December 2006 was as follows:-

In respect of the financial year ended 31 December 2007, an interim gross dividend of 2.59 sen per share, less income tax, paid on 24 July 2007	RM 4,083,912
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Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed 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 are not aware of any circumstances which would render the amounts written off for bad debts or the amount of 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 ensure that any current assets which were unlikely to realise 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 that 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 that have arisen which render adherence to the existing method of valuation of assets or 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 secures the liabilities of any other person; or
- b) any contingent liability 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 which would render any amount stated in the financial statements misleading.

Items of an Unusual Nature

The results of the operations of the Company during 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

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia.

The Company and its directors are committed to ensuring that the highest standards of corporate governance are practised. Integrity is a fundamental value to our business that is applied to all our activities.

a) Board Responsibility and Oversight

The Board comprises seven directors, represented by two independent non-executive directors (including the Chairman), three non-executive directors and two executive directors. Six meetings were held during the financial year ended 31 December 2007 and six meetings have been scheduled for the year 2008, with additional meetings to be convened as necessary.

The Board is responsible for the overall governance of the Company and is committed to ensuring that highest standards are being maintained and compliance with relevant Acts, Regulations and Guidelines are being observed. The directors bring to the Board a wide range of business and financial experience and participate fully in decisions on the key issues of the Company.

b) Committees

The Board is supported by several committees which comprise members of the Board. The main committees of the Board are the Audit, Nomination, Remuneration and Risk Management Committees.

Committee membership is reviewed at least once annually and the Committees meet regularly as required, to deal with matters that are referred by the Board or management from time to time. Details of directors' and Committee members' attendance at Board and Committee meetings are outlined in the table of meeting attendance set out on page 13 of this report.

(i) Audit Committee

The membership of the Audit Committee comprises two independent non-executive directors and one non-executive director. The current members of the Audit Committee are Alwyn Graeme Anschutz (Chairman), Dato' Nik Mohamed Din Bin Datuk Nik Yusoff and Lau Cheong Koon.

12 Directors' Report (cont'd)

For the financial year ended 31 December 2007

Corporate Governance (cont'd)

The Audit Committee operates under written terms of reference determined by the Board and the role of the Committee is to oversee and enhance credibility of the Company's financial reporting process, and to ensure all policies, procedures and all statutory and non-statutory guidelines are adhered to.

There are formal procedures in place for both internal and external auditors to report conclusions and recommendations to management and to the Audit Committee. All aspects of the system of internal controls are subjected to regular review to ensure their adequacy and effectiveness.

(ii) Nomination Committee

The membership of the Nomination Committee comprises two independent non-executive directors and three non-executive directors. The current members of the Committee are Dato' Nik Mohamed Din Bin Datuk Nik Yusoff (Chairman), Alwyn Graeme Anschutz, Lau Cheong Koon, Michael John Goodwin and James David Rudkin. The Nomination Committee operates under written terms of reference determined by the Board, taking into consideration all relevant Bank Negara Malaysia's guidelines. The role of the Committee is to establish the minimum requirements for the appointment of Board members, the Chief Executive Officer and key senior officers, including overseeing the composition, size and skills of the Board members and its effectiveness.

The Committee believes the skills, experience and qualities of directors are conducive to the efficient running of the business.

(iii) Remuneration Committee

The membership of the Remuneration Committee comprises two independent non-executive directors and three non-executive directors. The current members of the Remuneration Committee are Dato' Nik Mohamed Din Bin Datuk Nik Yusoff (Chairman), Alwyn Graeme Anschutz, Lau Cheong Koon, Michael John Goodwin and James David Rudkin.

The Remuneration Committee operates under written terms of reference determined by the Board and is responsible for the development of the Company's remuneration policy for its directors, Chief Executive Officer and key senior officers. The Committee considers recommendations from management and provides specific recommendations on the remuneration packages and other terms of employment for executive and non-executive directors, senior management as well as staff development to ensure that high quality people are retained.

(iv) Risk Management Committee

The Risk Management Committee comprises two independent non-executive directors and three non-executive directors. The current members of the Risk Management Committee are Alwyn Graeme Anschutz (Chairman), Dato' Nik Mohamed Din Bin Datuk Nik Yusoff, Lau Cheong Koon, Michael John Goodwin and James David Rudkin.

The Risk Management Committee operates under written terms of reference determined by the Board and is responsible for overseeing the senior management's activities in managing the key risk areas of the Company.

The Company has established internal controls to manage risk in the key areas of exposure relevant to its business and the Committee has a risk management framework to identify significant areas of business risk and to effectively and expeditiously manage those risks. Systems are designed to provide reasonable assurance that the assets of the Company are safeguarded, insurance risk exposure is within desired limits, reinsurance protections are adequate and counter-parties are subject to security assessment.

The scope of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system is intended to provide reasonable assurance, but not an absolute guarantee, against material financial misstatement or loss.

The Committee recommends and the Board approves a comprehensive Risk Management Strategy and Reinsurance Management Strategy on an annual basis and is responsible to the shareholders for the performance of the Company and as such, fulfils a critical role in establishing and maintaining an effective risk management strategy.

c) Management Accountability

The Company has well documented and updated organisational structures showing all reporting lines as well as clearly documented job descriptions for management and executive employees.

A formal process of developing and monitoring individual goals on a consultative basis is adopted for staff performance appraisals to ensure that the goals are in line with the Company's corporate objectives and responsibilities.

d) Public Accountability

The Company has always ensured that its business is conducted fairly, honestly and professionally.

e) Corporate Independence

All material related party transactions have been disclosed in the notes to the financial statements.

f) Financial Reporting

The directors are responsible for ensuring that the accounting records are properly kept and that the Company's financial statements are prepared in accordance with the Malaysian Accounting Standard Board ('MASB') Approved Accounting Standards in Malaysia for Entities Other than Private Entities.

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.

Meetings of Directors

Number of Meetings Held during the year	Meetings of Committees				
	Full meeting of directors	Audit	Nomination	Remuneration	Risk Management
	Number Attended	Number Attended	Number Attended	Number Attended	Number Attended
Alwyn Graeme Anschutz	6/6	6/6	3/3	1/1	4/4
Dato' Nik Mohamed Din Bin Datuk Nik Yusoff	6/6	6/6	3/3	1/1	4/4
Vincent McLenaghan (Resigned on 15.08.2007)	4/4	-	1/1	-	3/3
Tai Lee Heng	6/6	-	-	-	-
Lau Cheong Koon	6/6	6/6	3/3	1/1	4/4
Graeme John Evans	6/6	-	-	-	-
Michael John Goodwin	6/6	-	3/3	1/1	4/4
James David Rudkin (Appointed on 04.09.2007)	2/2	-	2/2	1/1	1/1

Directors and their Interests in Shares

a) The directors who have held office since the date of the last report are as follows:

Alwyn Graeme Anschutz

Tai Lee Heng

Dato' Nik Mohamed Din Bin Datuk Nik Yusoff

Lau Cheong Koon

Graeme John Evans

Michael John Goodwin

Vincent McLenaghan (Resigned on 15.08.2007)

James David Rudkin (Appointed on 04.09.2007)

b) In accordance with Article 63 of the Company's Articles of Association, Michael John Goodwin and Dato' Nik Mohamed Din Bin Datuk Nik Yusoff retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

c) In accordance with Article 68 of the Company's Articles of Association, James David Rudkin, who was appointed during the financial year, retires at the forthcoming Annual General Meeting and being eligible, offers himself for election.

d) Alwyn Graeme Anschutz retires pursuant to Section 129 of Companies Act, 1965 at the forthcoming Annual General Meeting and offers himself for re-appointment to hold office until the conclusion of the next Annual General Meeting of the Company.

e) The directors' direct and indirect beneficial interests in the shares of the Company and its related corporations are as follows:

Shares in QBE Insurance Group Limited (Ultimate holding corporation):	--- No. of Ordinary Shares of A\$1 each ---			
	At 1.1.2007	Acquired	Disposed	At 31.12.2007
Alwyn Graeme Anschutz	5,000	-	1,000	4,000
Tai Lee Heng	40	1	-	41
James David Rudkin	42,323	-	3,000	39,323
Graeme John Evans	45,849	1,602	-	47,451
Michael John Goodwin	5,923	20,173	19,860	6,236

14 Directors' Report (cont'd)

For the financial year ended 31 December 2007

Directors and their Interests in Shares (cont'd)

f) Options over shares in QBE Insurance Group Limited granted to the directors are as follows:

	--- No. of options over Ordinary Shares of A\$1 each ---			
	At 1.1.2007	Granted	Exercised/ Lapsed	At 31.12.2007
James David Rudkin	19,160	-	-	19,160
Graeme John Evans	3,186	1,344	-	4,530
Michael John Goodwin	26,087	2,968	13,978	15,077

g) Rights over shares in QBE Insurance Group Limited granted to the directors are as follows:

	--- No. of rights over Ordinary Shares of A\$1 each ---			
	At 1.1.2007	Granted	Exercised	At 31.12.2007
James David Rudkin	8,115	137	-	8,252
Graeme John Evans	1,256	741	-	1,997
Michael John Goodwin	10,749	1,705	5,882	6,572

h) 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

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, other than the options and rights granted over the shares of the ultimate holding corporation as disclosed in this report.

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of fees and other emoluments received or due and receivable by directors shown in note 20 to the financial statements) by reason of a contract made by the Company or a related corporation with the 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 ultimate holding corporation and other related corporations.

Ultimate Holding Corporation

The directors regard QBE Insurance Group Limited, a corporation incorporated in Australia, as the ultimate holding corporation.

Registered Office and Principal Place of Business

The registered office and principal place of business of the Company are located at No 638, Level 6, Block B1, Pusat Dagang Setia Jaya (Leisure Commerce Square), No 9, Jalan PJS 8/9, 46150 Petaling Jaya, Selangor.

Auditors

Our auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office.

Signed on behalf of the Board of directors in accordance with their resolution dated 11 February 2008.



Dato' Nik Mohammed Din Bin Datuk Nik Yusoff
Director



Graeme John Evans
Director

Statement By Directors

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

We, Dato' Nik Mohamed Din Bin Datuk Nik Yusoff and Graeme John Evans, two of the directors of QBE Insurance (Malaysia) Berhad state that, in the opinion of the directors, the financial statements set out on pages 17 to 43 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of the results and the cash flows for the financial year ended on that date in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of directors in accordance with their resolution dated 11 February 2008.

Dato' Nik Mohamed Din Bin Datuk Nik Yusoff
Director

Graeme John Evans
Director

Petaling Jaya

Statutory Declaration

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

I, Lim Joo Leong, the officer primarily responsible for the financial management of QBE Insurance (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 17 to 43 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Lim Joo Leong

Subscribed and solemnly declared by the above-named Lim Joo Leong at Petaling Jaya, Selangor Darul Ehsan, in Malaysia on 11 February 2008.

Before me,

Commissioner for Oaths

A311, Block A,
Glomac Business Centre,
No. 10, Jalan SS6/1,
Kelana Jaya
47301 Petaling Jaya, Selangor

Report Of The Auditors

Report of the Auditors to the members of
QBE Insurance (Malaysia) Berhad

We have audited the financial statements set out on pages 17 to 43. 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 properly drawn up in accordance with the provisions of the Companies Act, 1965 and Malaysian Accounting Standards Board ("MASB") approved accounting standards in Malaysia for Entities Other than Private Entities so as to give a true and fair view of:

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



Sriharan Nair
[No. 2656/05/08 (J)]
Partner of the firm

11 February 2008
Kuala Lumpur

Balance Sheet

As at 31 December 2007

17

	Note	2007 RM	2006 RM
Assets			
Property, plant and equipment	5	8,709,946	9,278,926
Investment property	6	350,000	350,000
Investments	7	240,142,558	225,715,627
Receivables and other assets	8	20,862,243	21,143,026
Tax recoverable		234,593	234,592
Deferred tax asset	9	3,652,853	2,673,517
Cash and bank balances		13,813,215	15,629,404
Total assets		287,765,408	275,025,092
Liabilities			
Provision for outstanding claims	10	95,810,980	99,140,350
Payables and other liabilities	12	17,787,918	18,098,847
Taxation liabilities		3,283,184	334,494
Amount due to holding corporation	25	87,630	117,017
		116,969,712	117,690,708
Unearned premium reserves	14	37,812,185	37,688,410
Total liabilities		154,781,897	155,379,118
Shareholders' equity			
Share capital	16	108,000,000	108,000,000
Retained earnings		24,983,511	11,645,974
		132,983,511	119,645,974
Total liabilities and shareholders' equity		287,765,408	275,025,092

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

18 Income Statement

For the financial year ended 31 December 2007

	Note	2007 RM	2006 RM
Operating revenue	24	<u>147,145,438</u>	<u>166,017,839</u>
Shareholders' fund			
Management (expenses)/income	20	<u>(33,777)</u>	<u>16,399</u>
		(33,777)	16,399
Surplus transferred from general insurance revenue account		<u>25,309,294</u>	<u>14,926,332</u>
Profit before taxation		25,275,517	14,942,731
Taxation	21	<u>(7,854,068)</u>	<u>(5,721,513)</u>
Profit for the financial year		<u>17,421,449</u>	<u>9,221,218</u>
Earnings per share (sen)	17	8.07	4.27
Gross dividend per share (sen)	18	2.59	8.50

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

General Insurance Revenue Account

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For the financial year ended 31 December 2007

	Note	Fire RM	Motor RM	Marine Aviation & Transit RM	Misc. RM	Total RM
Gross premium		25,927,495	12,737,925	12,428,395	86,552,128	137,645,943
Reinsurance		(6,480,769)	(828,516)	(2,329,780)	(56,680,015)	(66,319,080)
Net premium		19,446,726	11,909,409	10,098,615	29,872,113	71,326,863
Decrease/(increase) in unearned premium reserves	14	833,748	(156,195)	(1,303,606)	502,278	(123,775)
Earned premium		20,280,474	11,753,214	8,795,009	30,374,391	71,203,088
Net claims incurred	11	(11,038,640)	(2,050,383)	(5,086,611)	(11,905,700)	(30,081,334)
Net commission		(3,676,672)	(1,237,448)	(1,541,816)	(4,685,772)	(11,141,708)
		(14,715,312)	(3,287,831)	(6,628,427)	(16,591,472)	(41,223,042)
Underwriting surplus before management expenses		5,565,162	8,465,383	2,166,582	13,782,919	29,980,046
Management expenses	20					(21,459,463)
Underwriting surplus						8,520,583
Investment income	22					9,499,495
Other income - net	23					7,289,216
Profit from operations						25,309,294
Surplus transfer to Income Statement						25,309,294

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

20 General Insurance Revenue Account (cont'd)

For the financial year ended 31 December 2006

	Note	Fire RM	Motor RM	Marine Aviation & Transit RM	Misc. RM	Total RM
Gross premium		28,093,120	12,979,420	10,009,359	106,099,960	157,181,859
Reinsurance		(6,756,391)	(806,642)	(2,269,228)	(76,361,796)	(86,194,057)
Net premium		21,336,729	12,172,778	7,740,131	29,738,164	70,987,802
Decrease/(increase) in unearned premium reserves	14	356,267	484,083	(867,929)	138,095	110,516
Earned premium		21,692,996	12,656,861	6,872,202	29,876,259	71,098,318
Net claims incurred	11	(8,956,793)	(6,079,297)	(3,218,899)	(13,890,238)	(32,145,227)
Net commission		(3,948,443)	(1,200,583)	(1,100,480)	(3,525,159)	(9,774,665)
		(12,905,236)	(7,279,880)	(4,319,379)	(17,415,397)	(41,919,892)
Underwriting surplus before management expenses		8,787,760	5,376,981	2,552,823	12,460,862	29,178,426
Management expenses	20					(23,305,985)
Underwriting surplus						5,872,441
Investment income	22					8,835,980
Other income - net	23					217,911
Profit from operations						14,926,332
Surplus transfer to Income Statement						14,926,332

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

Statement Of Changes In Equity

For the financial year ended 31 December 2007

	Note	Share Capital RM	Distributable Retained Earnings RM	Total RM
At 1 January 2006		108,000,000	15,643,956	123,643,956
Dividend paid	18	-	(13,219,200)	(13,219,200)
Net profit for the financial year		-	9,221,218	9,221,218
At 31 December 2006		108,000,000	11,645,974	119,645,974
Dividend paid	18	-	(4,083,912)	(4,083,912)
Profit for the financial year		-	17,421,449	17,421,449
At 31 December 2007	19	108,000,000	24,983,511	132,983,511

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

22 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		17,421,449	9,221,218
Adjustments for:-			
Depreciation on property, plant and equipment		640,225	1,168,189
Gain on disposal of property, plant and equipment		(70,878)	(100,110)
Gain on disposal of investments		(7,479,057)	(414,884)
Amortisation of premiums net of accretion of discounts		2,777,635	3,059,419
Write back of allowance for doubtful debts		(1,076,282)	(352,991)
Interest income		(11,128,083)	(10,423,170)
Dividend income		(1,142,567)	(1,470,336)
Increase/(decrease) in unearned premium reserves		123,775	(110,516)
Taxation		7,854,068	5,721,513
Profit from operations before changes in operating assets and liabilities		7,920,285	6,298,332
Proceeds from disposal of investments		108,550,271	77,027,532
Purchase of investments		(91,238,311)	(113,716,616)
(Increase)/decrease in fixed and call deposits		(27,037,469)	46,515,400
(Decrease)/increase in provision for outstanding claims		(3,329,370)	463,721
Decrease in amounts due from agents, brokers, co-insurers, reinsurers and cedants		1,690,511	2,310,539
Decrease/(increase) in other receivables		277,180	(1,273,063)
Decrease in amounts due to agents, brokers, co-insurers, insureds, reinsurers and cedants		(675,762)	(1,556,009)
Increase/(decrease) in other payables		364,833	(678,074)
Decrease in amount owing to holding corporation		(29,387)	(2,403)
Income taxes paid		(5,884,715)	(7,382,119)
Interest income received		10,398,772	10,094,097
Dividend income received		1,261,252	1,351,651
Recovery of MBFI run-off deficiency		-	5,711,164
Net cash generated from operating activities	26	2,268,090	25,164,152
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		88,519	159,941
Purchase of property, plant and equipment		(88,886)	(543,649)
Net cash used in investing activities	26	(367)	(383,708)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(4,083,912)	(13,219,200)
Net cash used in financing activities		(4,083,912)	(13,219,200)
Net (decrease)/increase in cash and cash equivalents	26	(1,816,189)	11,561,244
Cash and cash equivalents at 1 January		15,629,404	4,068,160
Cash and cash equivalents at 31 December		13,813,215	15,629,404
Cash and cash equivalents comprise:			
Cash and bank balances		13,813,215	15,629,404

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

Notes To The Financial Statements

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1. PRINCIPAL ACTIVITY

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies. The financial statements comply with Financial Reporting Standards ("FRS"), the MASB Approved Accounting Standards in Malaysia for Entities other than Private Entities, the provisions of the Companies Act, 1965, the Insurance Act, 1996 and relevant Guidelines and Circulars issued by Bank Negara Malaysia ("BNM") in all material aspects.

The preparation of financial statements in conformity with FRS requires the use of 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 financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3

(i) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments to published standards and IC Interpretations to existing standards effective for the Company's financial period beginning on or after 1 January 2007 are as follows:

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

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations.

There were no significant changes to the Company's accounting policies arising from the adoption of the above new accounting standards and/or amendment to published standards. In summary:

- FRS 6 and Amendment to FRS 119₂₀₀₄ are not relevant to the Company's operations.
- FRS 117 has no significant impact to the Company's accounting policies.
- FRS 124 requires the disclosure of compensation to key management personnel (note 15)

(ii) 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.
- 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.

Notes To The Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- 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 Decommission, 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.

b) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Leasehold building is amortised in equal instalments over the period of lease of 85.93 years. Depreciation on other property, plant and equipment is calculated using the straight-line basis to allocate their cost or revalued amount to their residual values over the expected useful lives of the assets. The expected useful lives of the assets are as follows:

Motor Vehicles	5 years
EDP Equipment	4 - 6 years
Office Equipment	4 - 10 years
Furniture & Fittings	2 - 10 years
Renovations	2 - 5 years
Freehold Building	50 years

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 indications exist, 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 2 (e) on impairment of assets.

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

c) Investment Property

An investment property is held for long term rental yields or for capital appreciation or both, and is not occupied by the Company.

Investment property is stated at fair value, representing open market value determined by an external valuer. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair value is reviewed annually by an external valuer and any changes in the fair value are recorded in the revenue account.

d) Investments

Malaysian Government Securities, Treasury bills and other unquoted approved debt securities 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 date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the income statement and/or revenue account.

Quoted investments are stated at the lower of cost or 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, specific allowance is made against the value of that investment. Market value is determined by reference to the stock exchange closing price at the balance sheet date.

e) Impairment of Non-Financial Asset

The carrying values of non-financial assets that are subject to amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may 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 costs to sell and the value in use. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

A subsequent increase in the recoverable amount of an asset is treated as 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 and/or revenue account immediately.

Notes To The Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Employee Benefits

(i) Short Term Employee Benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

(ii) Post-employment Benefits

The Company's contributions to defined contribution plans are charged to the income statement/revenue account in the period to which they relate to. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Termination Benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(iv) Cash-Settled Share-Based Plan

The Company participated in a cash-settled, share-based plan for the employees of the Company. The fair value of the employee services received in exchange for the grant of the share appreciation rights is recognised in the revenue account over the vesting periods of the grant with a corresponding increase in liabilities.

The total amount to be expensed off on the vesting period is determined by reference to the fair value of the share appreciation rights. At each balance sheet date, the Company reviews its estimates of the number of employees expected to meet service vesting conditions and the fair value of the liability incurred. The impact of the revision of the original estimate, if any, is recognised in the income statement and or revenue account.

The cumulative liability incurred will be reversed as cash is paid, net of any directly attributable transaction costs, at the end of vesting period.

g) 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 (net of any incentives received from the lessor) are charged to the income statement and/or revenue account on a straight-line basis over the lease period.

h) Receivables

Trade receivables are carried at invoiced amount less an allowance made for doubtful debts.

Known bad debts are written off and specific allowances are made for any premiums including agents' balances or reinsurance balances which remain outstanding for more than six months from the date on which they become receivable, except for motor premiums for which allowance is made for amounts outstanding for more than 30 days, and for all debts which are considered doubtful.

i) 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.

(i) Premium Income

Premium income is recognised in a financial year in respect of risks assumed during that particular financial year. Premiums from direct business are recognised during the financial year upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been raised as of the balance sheet date are accrued at that date and are recognised in the revenue account during the year.

(ii) Inward Reinsurance

Premiums, claims and other transactions of inward reinsurance business are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

(iii) Outward Reinsurance

Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

(iv) Unearned Premium Reserves

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

In determining the UPR at the balance sheet date, the method that most accurately reflects the actual unearned premium is used. 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 insurance business in respect of Malaysian general policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

(v) Acquisition Costs

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

(vi) 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 at the balance sheet date, based on an actuarial valuation.

Throughout the course of the financial year, management regularly re-assesses claims and provisions both on an individual and class basis, based on independent professional advice and reports, other available information and management's own assessment of the claims and provisions.

Notes To The Financial Statements (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Other Revenue Recognition

Interest income 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.

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

k) Foreign Currencies

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

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated to Ringgit Malaysia at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement and/or revenue account.

l) Income Taxes

Current tax expense is determined according to the tax laws of the country and include all taxes based upon taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

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 deferred tax liability is settled.

m) 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 the past events whose existence will be confirmed by 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 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.

n) Dividends

Dividends on ordinary shares are recognised as liabilities when the obligation to pay is established. No provision is made for a proposed dividend.

o) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made.

p) Cash and Cash Equivalents

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

q) Financial Instruments

Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition method

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

Fair values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date are assumed to approximate their fair values, except for the investments in Malaysian Government Securities, Treasury bills and quoted equity securities as disclosed in note 7 to the financial statements.

The Company's basis of estimation of fair values in the financial statements is as follows:

- (i) Traded securities are based on quoted market prices.
- (ii) Malaysian Government Securities and Treasury bills are based on indicative prices as provided by BNM.
- (iii) The face values of the other financial assets and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by 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 financial year are outlined below.

- **Incurred But Not Reported Claims**

Incurred But Not Reported ("IBNR") claims for each class of business are estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected estimates are based on a judgemental consideration of results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term to settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

b) Critical Judgements In Applying The Entity's Accounting Policies

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

30 Notes To The Financial Statements (cont'd)

4. FINANCIAL INSTRUMENTS

a) Interest Rate Risk

The Company's exposure to interest rate risk is managed primarily through appropriate adjustments to existing investment portfolios.

The Company's exposure to interest rate risk and the effective weighted average interest rate for each significant class of interest-bearing financial asset and liability is set out below:

2007	No Stated Maturity and non Interest Bearing RM	Fixed Interest Rate Maturing In		Total Carrying Amount RM	Weighted Average Effective Interest Rate
		1 Year Or Less RM	1 to 5 Years RM		
Financial assets:					
Investments					
- Malaysian Government Securities	-	55,475,885	51,118,593	106,594,478	5.67%
- Treasury bills	-	38,422,390	-	38,422,390	3.40%
- Fixed and call deposits	-	95,125,690	-	95,125,690	3.25%
- Equity securities of corporations	-	-	-	-	
Other receivables	5,119,786	-	-	5,119,786	
Cash and bank balances	-	13,813,215	-	13,813,215	2.88%
	5,119,786	202,837,180	51,118,593	259,075,559	
Other financial assets*				13,056,075	
Total financial assets				272,131,634	
Other assets				15,633,774	
Total assets per balance sheet				287,765,408	
Financial liabilities:					
Amount due to holding corporation	(87,630)	-	-	(87,630)	
Other payables	(13,647,955)	-	-	(13,647,955)	
	(13,735,585)	-	-	(13,735,585)	
Other financial liabilities*				(7,423,147)	
Total financial liabilities				(21,158,732)	
Other liabilities				(133,623,165)	
Total liabilities per balance sheet				(154,781,897)	

* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts is not shown as it is excluded from the scope of FRS132 "Financial Instruments: Disclosure and Presentation".

2006	No Stated Maturity and non Interest Bearing RM	Fixed Interest Rate Maturing In		Total Carrying Amount RM	Weighted Average Effective Interest Rate
		1 Year Or Less RM	1 to 5 Years RM		
Financial assets:					
Investments					
- Malaysian Government Securities	-	64,958,418	68,522,997	133,481,415	6.17%
- Treasury bills	-	-	-	-	-
- Fixed and call deposits	-	68,088,221	-	68,088,221	3.53%
- Equity securities of corporations	24,145,991	-	-	24,145,991	-
Other receivables	4,484,312	-	-	4,484,312	-
Cash and bank balances	-	15,629,404	-	15,629,404	2.69%
	<u>28,630,303</u>	<u>148,676,043</u>	<u>68,522,997</u>	<u>245,829,343</u>	
Other financial assets*				<u>13,784,809</u>	
Total financial assets				259,614,152	
Other assets				15,410,940	
Total assets per balance sheet				<u>275,025,092</u>	
Financial liabilities:					
Amount due to holding corporation	(117,017)	-	-	(117,017)	
Other payables	(10,334,432)	-	-	(10,334,432)	
	<u>(10,451,449)</u>	<u>-</u>	<u>-</u>	<u>(10,451,449)</u>	
Other financial liabilities*				<u>(8,098,909)</u>	
Total financial liabilities				(18,550,358)	
Other liabilities				(136,828,760)	
Total liabilities per balance sheet				<u>(155,379,118)</u>	

* Disclosure information for financial assets and liabilities that relates to rights and obligations arising under insurance contracts is not shown as it is excluded from the scope of FRS132 "Financial Instruments: Disclosure and Presentation".

b) Foreign Exchange And Market Risks

The Company's primary business is that of providing insurance by way of contracts that expose the Company to identified risks of loss from events or circumstances occurring or discovered within a specified period.

The Company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currency arise. It is not the Company's policy to hedge its foreign currency risks.

The Company is exposed to market risk on its investments in equities and fixed interest securities. It is not the Company's policy to hedge its market risks.

The risk management process is subject to regular internal audit and close senior management scrutiny, including regular Board and other management reporting. All investments are made in accordance with the Company's investments guidelines which are approved by the Board of Directors.

c) Credit Risk

In the normal course of business, the Company incurs credit risk from trade receivables and financial institutions. There is no significant concentration of credit risk.

The credit risk on financial assets of the Company is generally the carrying amount, which is net of any allowances. Credit risk exposures are calculated regularly and compared to authorised credit limits before further transactions are undertaken with each counter-party. The Company does not expect any counter-parties to fail to meet their obligations given their high credit ratings and therefore does not require collateral or other security.

32 Notes To The Financial Statements (cont'd)

5. PROPERTY, PLANT AND EQUIPMENT

2007	Motor Vehicles RM	EDP Equipment RM	Office Equipment RM	Furniture & Fittings RM	Renovations RM	Freehold Building RM	Leasehold Building RM	Total RM
Net book value								
At 1 January	853,347	591,267	440,418	267,840	148,485	1,070,667	5,906,902	9,278,926
Additions	-	58,986	29,900	-	-	-	-	88,886
Disposals	(13,148)	(2,995)	(1,498)	-	-	-	-	(17,641)
Depreciation	(18,006)	(294,521)	(84,300)	(58,551)	(93,022)	(22,000)	(69,825)	(640,225)
At 31 December	822,193	352,737	384,520	209,289	55,463	1,048,667	5,837,077	8,709,946
At 31 December								
Cost	1,553,187	2,824,139	1,118,864	977,690	2,302,786	1,954,337	6,422,252	17,153,255
Accumulated impairment loss	-	-	-	-	-	(724,048)	(182,447)	(906,495)
Accumulated depreciation	(730,994)	(2,471,402)	(734,344)	(768,401)	(2,247,323)	(181,622)	(402,728)	(7,536,814)
Net Book Value	822,193	352,737	384,520	209,289	55,463	1,048,667	5,837,077	8,709,946

Risks, rewards and effective title to the freehold and leasehold buildings have been passed to the Company upon unconditional completion of sale and purchase agreements. The Company has submitted the relevant documents to the land authorities for transfer of legal title to the Company and is awaiting the process and formalities of this transfer to be completed.

2006	Motor Vehicles RM	EDP Equipment RM	Office Equipment RM	Furniture & Fittings RM	Renovations RM	Freehold Building RM	Leasehold Building RM	Total RM
Net book value								
At 1 January	861,123	849,277	522,330	326,294	337,214	1,440,334	5,976,725	10,313,297
Additions	403,217	129,030	6,950	4,452	-	-	-	543,649
Disposals	(56,826)	(1,694)	(1,090)	(221)	-	-	-	(59,831)
Transfer to Investment property (note 6)	-	-	-	-	-	(350,000)	-	(350,000)
Depreciation	(354,167)	(385,346)	(87,772)	(62,685)	(188,729)	(19,667)	(69,823)	(1,168,189)
At 31 December	853,347	591,267	440,418	267,840	148,485	1,070,667	5,906,902	9,278,926
At 31 December								
Cost	1,744,393	2,780,825	1,095,173	979,368	2,302,786	1,954,337	6,422,252	17,279,134
Accumulated impairment loss	-	-	-	-	-	(724,048)	(182,447)	(906,495)
Accumulated depreciation	(891,046)	(2,189,558)	(654,755)	(711,528)	(2,154,301)	(159,622)	(332,903)	(7,093,713)
Net Book Value	853,347	591,267	440,418	267,840	148,485	1,070,667	5,906,902	9,278,926

Risks, rewards and effective title to the freehold and leasehold buildings have been passed to the Company upon unconditional completion of sale and purchase agreements. The Company has submitted the relevant documents to the land authorities for transfer of legal title to the Company and is awaiting the process and formalities of this transfer to be completed.

6. INVESTMENT PROPERTY

	2007 RM	2006 RM
As at 1 January	350,000	-
Transfers from owner occupied property (note 5)	-	350,000
As at 31 December	350,000	350,000

The property was transferred at carrying value in 2006 from property, plant and equipment. The fair value of the property is estimated at RM350,000 based on a valuation performed by an independent professionally qualified valuer from Messrs C H Williams Talhar & Wong. Rental income earned and the related marketing and administration expenses are disclosed in note 22.

7. INVESTMENTS

	2007		2006	
	Carrying Value RM	Market Value RM	Carrying Value RM	Market Value RM
At cost:				
Malaysian Government Securities	109,860,363	106,831,265	137,554,950	133,962,227
Net amortisation of premium	(3,265,885)		(4,073,535)	
	106,594,478		133,481,415	
At cost:				
Treasury bills	38,384,227	38,422,390	-	-
Net accretion of discount	38,163		-	
	38,422,390		-	
Quoted in Malaysia, at cost:				
Equity securities of corporations	-	-	24,145,991	26,849,825
	-		24,145,991	
Fixed and call deposits with:				
Licensed banks	95,125,690		68,088,221	
	95,125,690		68,088,221	
Total investments	240,142,558		225,715,627	

The maturity structure of Malaysian Government Securities is as follows:

	2007 RM	2006 RM
Maturity within 12 months	55,475,885	64,958,418
Maturity after 12 months	51,118,593	68,522,997
	106,594,478	133,481,415

All treasury bills, fixed and call deposits held at balance sheet date mature within 12 months.

34 Notes To The Financial Statements (cont'd)

8. RECEIVABLES AND OTHER ASSETS

	2007 RM	2006 RM
Trade receivables:		
Outstanding premiums including agents, brokers and co-insurers balances	14,330,311	14,518,635
Allowance for doubtful debts	(2,219,539)	(2,852,118)
	<u>12,110,772</u>	<u>11,666,517</u>
Amount due from reinsurers and cedants	3,717,547	5,219,734
Allowance for doubtful debts	(2,772,244)	(3,101,442)
	<u>945,303</u>	<u>2,118,292</u>
	<u>13,056,075</u>	<u>13,784,809</u>
Other assets:		
Interest income due and accrued	3,147,596	2,536,970
Assets held under Malaysian Motor Insurance Pool	2,492,557	2,484,328
Deposits	303,491	300,822
Prepayments	145,418	193,621
	<u>6,089,062</u>	<u>5,515,741</u>
Other assets	1,717,106	1,956,981
Allowance for doubtful debts	-	(114,505)
	<u>1,717,106</u>	<u>1,842,476</u>
	<u>7,806,168</u>	<u>7,358,217</u>
	<u>20,862,243</u>	<u>21,143,026</u>

Included in outstanding premiums is an amount of RM97,934 (2006: RM144,480) due from MBf Corporation Group as disclosed in note 25 to the financial statements.

Included in an amount due from reinsurers and cedants is an amount of RM194,827 (2006:RM Nil) due from the holding corporation, as disclosed in note 25 to the financial statements.

9. DEFERRED TAX ASSET

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2007 RM	2006 RM
As at 1 January	2,673,517	2,580,166
Credited to income statement (note 21)	979,336	93,351
As at 31 December	<u>3,652,853</u>	<u>2,673,517</u>

The movements in deferred tax asset during the financial year comprises the tax effects of the following:

	At 1 January RM	(Charged)/ credited RM	At 31 December RM
2007			
(Charged)/credited to income statement (note 21)			
Excess of capital allowance over depreciation	(264,769)	55,514	(209,255)
Accretion of discounts net of amortisation of premiums	1,099,854	(260,646)	839,208
General allowance for doubtful debts	1,450,446	(367,727)	1,082,719
Unearned premium reserves	368,566	188,606	557,172
Accrued dividend	(40,916)	40,916	-
Employee benefits accrued	60,336	53,353	113,689
Other provisions	-	1,269,320	1,269,320
	<u>2,673,517</u>	<u>979,336</u>	<u>3,652,853</u>
2006			
Excess of capital allowance over depreciation	(252,332)	(12,437)	(264,769)
Accretion of discounts net of amortisation of premiums	958,389	141,465	1,099,854
General allowance for doubtful debts	1,590,380	(139,934)	1,450,446
Unearned premium reserves	209,514	159,052	368,566
Accrued dividend	-	(40,916)	(40,916)
Employee benefits accrued	44,681	15,655	60,336
Other provisions	29,534	(29,534)	-
	<u>2,580,166</u>	<u>93,351</u>	<u>2,673,517</u>

10. PROVISION FOR OUTSTANDING CLAIMS

	2007 RM	2006 RM
Provision for outstanding claims	175,149,202	179,853,543
Recoverable from reinsurers	(79,338,222)	(80,713,193)
Net outstanding claims	<u>95,810,980</u>	<u>99,140,350</u>

36 Notes To The Financial Statements (cont'd)

11. NET CLAIMS INCURRED

	Fire RM	Motor RM	Marine RM	Misc. RM	Total RM
2007					
Gross claims paid less salvage	8,951,101	13,367,765	6,447,405	12,890,973	41,657,244
Reinsurance recoveries	(443,426)	(771,238)	(2,664,454)	(4,367,422)	(8,246,540)
Net claims paid	8,507,675	12,596,527	3,782,951	8,523,551	33,410,704
Net outstanding claims:					
At 31 December	12,711,991	37,227,015	6,772,150	39,099,824	95,810,980
At 1 January	(10,181,026)	(47,773,159)	(5,468,490)	(35,717,675)	(99,140,350)
Net claims incurred	11,038,640	2,050,383	5,086,611	11,905,700	30,081,334
2006					
Gross claims paid less salvage	6,838,923	14,540,978	1,152,011	11,913,180	34,445,092
Reinsurance recoveries	(317,595)	(1,022,401)	932,565	(2,356,155)	(2,763,586)
Net claims paid	6,521,328	13,518,577	2,084,576	9,557,025	31,681,506
Net outstanding claims:					
At 31 December	10,181,026	47,773,159	5,468,490	35,717,675	99,140,350
At 1 January	(7,745,561)	(55,212,439)	(4,334,167)	(31,384,462)	(98,676,629)
Net claims incurred	8,956,793	6,079,297	3,218,899	13,890,238	32,145,227

12. PAYABLES AND OTHER LIABILITIES

	2007 RM	2006 RM
Trade payables:		
Amount due to agents, brokers, co-insurers and insureds	3,102,865	2,331,045
Amount due to reinsurers and cedants	4,320,282	5,767,864
	<u>7,423,147</u>	<u>8,098,909</u>
Other liabilities:		
Payroll liabilities	1,992,468	2,025,461
Duties and other taxes payable	536,487	476,299
Accrual for Insurance Guarantee Scheme Fund Levy	314,213	362,506
Accrued expenses	6,527,304	6,413,321
Accrued for employees cash-settled share-based plan (note 13)	190,000	72,000
Other liabilities	804,299	650,351
	<u>10,364,771</u>	<u>9,999,938</u>
	<u>17,787,918</u>	<u>18,098,847</u>

Included in amount due to reinsurers and cedants is an amount of RM Nil (2006:RM869,439) due to the holding corporation, as disclosed in note 25 to the financial statements.

Included in accrued expenses is an amount of RM4,882,000 (2006:RM4,882,000) due to the holding corporation, as disclosed in note 25 to the financial statements.

Included in amount due to agents, brokers, co-insurance and insureds is an amount of RM1,843 (2006: RM Nil) due to MBf Corporation Group as disclosed in note 25 to the financial statements.

13. EMPLOYEES CASH-SETTLED SHARE-BASED BENEFIT PLAN

Employees of the Company are invited to participate in a cash-settled share-based plan offered by the ultimate holding company, QBE Insurance Group Limited.

The grant will be paid out to eligible permanent employees who have met minimum service conditions and after a retention period of three years provided the employees are still employed by Company at that time.

Details of the plan are as follows:

	2007		2006	
	No of units	Grant value RM	No of units	Grant value RM
Exercised :				
As at 31 December (note 12 and 20)	3,576	190,000	2,451	72,000

The fair value of the grant awarded during the financial year was determined using the closing price of the Group's shares at the balance sheet and the expected notional cash dividends for that year of entitlement. The significant inputs into the computation were as follows:

	2007 AUD\$	2006 AUD\$
Closing market price (per share)	33.34	28.85
Expected notional cash dividends (per award)	0.63	0.84

14. UNEARNED PREMIUM RESERVES

	Fire RM	Motor RM	Marine Aviation & Transit RM	Misc. RM	Total RM
2007					
At 1 January	11,533,573	5,733,893	3,383,700	17,037,244	37,688,410
(Decrease)/increase in unearned premium reserves	(833,748)	156,195	1,303,606	(502,278)	123,775
At 31 December	10,699,825	5,890,088	4,687,306	16,534,966	37,812,185
2006					
At 1 January	11,889,840	6,217,976	2,515,771	17,175,339	37,798,926
Increase/(decrease) in unearned premium reserves	(356,267)	(484,083)	867,929	(138,095)	(110,516)
At 31 December	11,533,573	5,733,893	3,383,700	17,037,244	37,688,410

Notes To The Financial Statements (cont'd)

15. KEY MANAGEMENT PERSONNEL

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly, including any director (executive or non-executive).

The total remuneration of the Directors is disclosed in note 20 to the financial statements.

The compensation of the other key management personnel (including Executive Directors) are as follows:-

	2007 RM	2006 RM
Salary and other remuneration	1,597,696	1,499,397
Benefits-in-kind	196,409	184,149
	<u>1,794,105</u>	<u>1,683,546</u>

16. SHARE CAPITAL

	2007		2006	
	No of shares	RM	No of shares	RM
Authorised ordinary shares of RM0.50 each:				
As at 1 January/31 December	<u>400,000,000</u>	<u>200,000,000</u>	<u>400,000,000</u>	<u>200,000,000</u>
Issued and fully paid ordinary shares of RM0.50 each:				
As at 1 January/31 December	<u>216,000,000</u>	<u>108,000,000</u>	<u>216,000,000</u>	<u>108,000,000</u>

17. EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year of RM17,421,449 (2006: RM9,221,218) and on the weighted average number of ordinary shares in issue during the financial year of 216,000,000 (2006: 216,000,000).

18. DIVIDEND

Dividend paid in respect of the financial year was as follows:-

	Gross dividend per share Sen	Amount of dividend net of tax RM
2007		
Interim dividend of 2.59 sen per share, less income tax of 27%	<u>2.59</u>	<u>4,083,912</u>
2006		
Interim dividend of 8.50 sen per share, less income tax of 28%	<u>8.50</u>	<u>13,219,200</u>

19. DISTRIBUTABLE RETAINED EARNINGS

There are sufficient section 108 tax credits to frank the entire retained earnings of the Company as at 31 December 2007 if paid out as dividends

20. MANAGEMENT EXPENSES

	2007 RM	2006 RM
General Fund		
Staff salaries and bonus	8,846,069	8,871,486
Defined contribution plans	1,228,883	1,338,373
Employee cash-settled share-based plan (note 13)	118,000	72,000
Other employee benefits	780,598	744,459
	<u>10,973,550</u>	<u>11,026,318</u>
Executive Directors:		
Salaries	669,855	642,600
Bonus	182,344	171,496
Defined contribution plans	72,605	76,777
Other remuneration	224,623	208,310
Non-Executive Directors:		
Fees	60,000	60,000
Other	6,000	7,000
Directors' remuneration	<u>1,215,427</u>	<u>1,166,183</u>
Depreciation of property, plant and equipment	640,225	1,168,189
Auditors' remuneration	99,000	104,000
Hire of equipment	72,680	73,920
Office rental	518,181	500,595
EDP expenses	2,401,177	3,426,469
Communication expenses	731,301	886,290
Travelling expenses	975,414	1,244,077
Insurance Guarantee Scheme Fund levy	178,319	175,746
Bad and doubtful debts:		
Write back of allowance for doubtful debts	(1,076,282)	(352,991)
Bad debts written off recoveries	(4,750)	(13,328)
Bad debts written off	556,104	15,445
Other expenses	4,179,117	3,885,072
	<u>21,459,463</u>	<u>23,305,985</u>
Shareholders' fund		
Other expenses/(income)	33,777	(16,399)
	<u>21,493,240</u>	<u>23,289,586</u>
Money value of directors' benefits-in-kind	<u>186,174</u>	<u>163,662</u>

Included in the remuneration of the Executive Directors is the remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the insurer during the financial year which amounted to RM1,015,222 (2006: RM897,456)

40 Notes To The Financial Statements (cont'd)

21. TAX EXPENSE

	2007 RM	2006 RM
Current tax	8,833,404	5,814,864
Deferred tax (note 9)	(979,336)	(93,351)
	<u>7,854,068</u>	<u>5,721,513</u>
Tax expense		
Current tax		
Current year	8,427,659	6,416,005
Under/(over) accrual in prior years	405,745	(601,141)
Deferred tax		
Origination and reversal of temporary differences	(1,119,830)	(192,370)
Change in tax rate	140,494	99,019
	<u>7,854,068</u>	<u>5,721,513</u>
 (a) Reconciliation of prima facie tax to income tax expense:		
Profit before income tax	25,275,517	14,942,731
Tax calculated at the Malaysian tax rate of 27% (2006: 28%)	6,824,390	4,183,965
Tax effect of:		
Non-deductible expenses	272,972	905,374
Non-deductible foreign reinsurance expense	844,346	1,151,040
Non-taxable income	(30,236)	(44,987)
Temporary difference not previously accounted	(603,643)	28,243
Change in tax rate	140,494	99,019
Under/(over) accrual in prior years	405,745	(601,141)
	<u>7,854,068</u>	<u>5,721,513</u>
Income tax expense attributable to profit		

22. INVESTMENT INCOME

	2007 RM	2006 RM
General Fund		
Interest from:		
Malaysian Government Securities	7,645,191	7,777,328
Treasury bills	-	155,068
Fixed and call deposits	3,347,384	2,360,082
Amortisation of premiums net of accretion of discounts	(2,777,635)	(3,059,419)
Gross dividends from equity securities quoted in Malaysia	1,142,567	1,470,336
Investment property:		
Gross rental income	21,600	12,600
Rates and maintenance for investment property	(15,120)	(10,707)
Others	135,508	130,692
	<u>9,499,495</u>	<u>8,835,980</u>

23. OTHER INCOME– NET

	2007 RM	2006 RM
General Fund		
Gain on disposal of investments	7,479,057	414,884
Realised gain/(loss) on foreign exchange	56,364	(157,702)
Gain on disposal of property, plant and equipment	70,878	100,110
Other fees	(317,083)	(139,381)
	<u>7,289,216</u>	<u>217,911</u>

24. OPERATING REVENUE

	2007 RM	2006 RM
General Fund		
Operating revenue comprises:		
Gross premium income	137,645,943	157,181,859
Investment income (note 22)	9,499,495	8,835,980
	<u>147,145,438</u>	<u>166,017,839</u>

25. SIGNIFICANT RELATED PARTY DISCLOSURES

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party disclosures.

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

Related parties	Relationship
QBE Insurance Group Limited (Incorporated in Australia)	Ultimate holding corporation
QBE Insurance (International) Ltd. (Incorporated in Australia)	Immediate holding corporation
MBf Premier Berhad	Substantial shareholder
MBf Corporation Berhad	Holding company of MBf Premier Berhad

In the normal course of business, the Company undertakes various transactions with other companies deemed related parties by virtue of being subsidiary companies of MBf Corporation Berhad, collectively known as the MBf Corporation Group. The Company sold insurance policies to related parties, on terms and conditions no more favourable than those available on similar transactions to its employees and customers. Other related party transactions were carried out on terms and conditions no more favourable than those available on similar transactions to its unrelated parties.

42 Notes To The Financial Statements (cont'd)

25. SIGNIFICANT RELATED PARTY DISCLOSURES (cont'd)

The significant related party transactions during the financial year and balances at the financial year end between the Company and these related parties are set out below:

	2007 RM	2006 RM
Premium Income		
- MBf Corporation Group	<u>434,490</u>	<u>323,677</u>
Commission Paid		
- MBf Corporation Group	<u>(42,545)</u>	<u>(17,872)</u>
Reinsurance Claims Recoveries		
- QBE Insurance (International) Ltd.	<u>4,397,690</u>	<u>885,974</u>
Reinsurance Premium Ceded		
- QBE Insurance (International) Ltd.	<u>(9,673,557)</u>	<u>(8,686,699)</u>
Expenses		
- QBE Insurance (International) Ltd.		
IGSF Levy	24,176	21,630
Employees Share Incentives Scheme	(60,459)	(26,783)
Data processing charges	(1,445,669)	(2,382,000)
Other services	<u>(1,875,082)</u>	<u>(1,969,267)</u>

Amounts due from / (to) related entity as at the balance date are set out below:

	Note	2007 RM	2006 RM
Holding corporation:			
Trade receivables	8	194,827	-
Trade payables	12	-	(869,439)
Other payables		(87,630)	(117,017)
Accrued expenses			
- Accruals for Head Office charges	12	<u>(4,882,000)</u>	<u>(4,882,000)</u>
		<u>(4,969,630)</u>	<u>(5,868,456)</u>
MBf Corporation Group:			
Trade receivables	8	97,934	144,480
Trade payables	12	<u>(1,843)</u>	<u>-</u>

The amounts due from/(to) related parties are unsecured, interest free and have no fixed terms of repayment.

26. CASH FLOW SEGMENT INFORMATION

	2007			2006		
	General fund RM	Shareholders' fund RM	Total RM	General fund RM	Shareholders' fund RM	Total RM
Cash flows from:						
Operating activities	2,268,090	-	2,268,090	25,164,152	-	25,164,152
Investing activities	(367)	-	(367)	(383,708)	-	(383,708)
Financing activities	(4,083,912)	-	(4,083,912)	(13,219,200)	-	(13,219,200)
	<u>(1,816,189)</u>	<u>-</u>	<u>(1,816,189)</u>	<u>11,561,244</u>	<u>-</u>	<u>11,561,244</u>
Net (decrease)/ increase in cash and cash equivalents						
	(1,816,189)	-	(1,816,189)	11,561,244	-	11,561,244
Cash and cash equivalents:						
At 1 January	15,629,404	-	15,629,404	4,068,160	-	4,068,160
At 31 December	<u>13,813,215</u>	<u>-</u>	<u>13,813,215</u>	<u>15,629,404</u>	<u>-</u>	<u>15,629,404</u>

27. NON-CANCELLABLE OPERATING LEASE COMMITMENTS

	Future minimum lease payments	
	2007 RM	2006 RM
General fund		
Not later than 1 year	67,710	72,349
Later than 1 year and not later than 5 years	145,086	182,116
	<u>212,796</u>	<u>254,465</u>

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of directors on 11 February 2008.



QBE QBE INSURANCE (MALAYSIA) BERHAD

(161086-D - A member of the worldwide QBE Insurance Group)

1 Petaling Jaya (Head Office)

No. 638 Level 6 & 7 Block B1
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No. 9 Jalan PJS 8/9
46150 Petaling Jaya
Selangor Darul Ehsan
Tel : 03-7861 8400

2 Kuala Lumpur

15th Floor Bangunan MAS
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : 03-2161 5799

3 Penang

No. 53-4-8 MBf Tower
Jalan Sultan Ahmad Shah
10050 Penang
Tel : 04-227 3488

4 Ipoh

40-42B Persiaran Greenhill
30450 Ipoh
Perak Darul Ridzuan
Tel : 05-241 6633

5 Johor Bahru

No. 58 & 58A Jalan Sulam
Taman Sentosa
80150 Johor Bahru
Johor Darul Takzim
Tel : 07-335 6112

6 Kuantan

1st Floor Wisma Grand
55 Jalan Teluk Sisek
25000 Kuantan
Pahang Darul Makmur
Tel : 09-513 5511

7 Kuching

Level 8 Unit 08-02
Gateway Kuching
No. 9 Jalan Bukit Mata
93100 Kuching
Sarawak
Tel : 082-420 410

8 Sibiu

No. 67 1st Floor
Pusat Tanahwang
Jalan Pedada
96000 Sibiu
Sarawak
Tel : 084-333 993

9 Kota Kinabalu

2nd Floor Wisma KTS
Jalan Pantai
88000 Kota Kinabalu
Sabah
Tel : 088-234 306

10 Sandakan

1st Floor, Lot 8 Block B
Bandar Pasaraya
Mile 4, North Road
90000 Sandakan
Sabah
Tel : 089-218 896



COVER DESIGN RATIONALE

Every single slab makes all the difference to the completion of the total. At QBE Insurance, we realise the importance of collaboration, not only internally but particularly with our customers as our partners to grow. Indeed, it is a symbol of the final corner stone that helps to shape our future and achieve long-term goals.



QBE INSURANCE (MALAYSIA) BERHAD

(161086-D - A member of the worldwide QBE Insurance Group)

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