

# financial statements

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# Analysis of the Financial Statements

## ANALYSIS OF THE BALANCE SHEET

### Total Assets

The LPI Group's total assets increased to RM792.4 million as at 31 December 2007, registering a growth of 5% over the previous financial year. The asset growth was mainly attributed by the investment in associated company, CampuBank Lonpac Insurance Plc and the increase in the trade receivables as a result of the significant increase in the growth of premium income in 2007. The investment portfolio accounted for 85% of the Group's total assets of which the details are shown in the Note 7 to the financial statements.

### Investment Properties

The investment properties stood at RM10.0 million, an increase by 17.6% from RM8.5 million registered in 2006. The increase was due to the high appreciation of property market and the investment properties were revalued in accordance with the revaluation reports by the external independent valuation companies.

### Investments

Total investments for the Group registered a growth of 1.7% to RM673.3 million from RM662.1 million in 2006. The investment portfolio of the Group is well diversified with long-term and short-term investments. Short-term investments such as the placements in fixed deposits decreased to RM456.9 million from RM460.2 million during the year. The decline was mainly due to the shift of investment from short-term deposits to bonds and investment in associated company.

The Group's long-term investments in Government Securities and Government Guaranteed Loans constituted 7.5% of the total investments whilst the investments in quoted equity securities increased by 16.7% to RM106.9 million from RM91.6 million in 2006. The investment in quoted equity securities remained healthy and strong with the year-end market value of RM608.2 million, an impressive appreciation of RM501.3 million or 4.7 times over its book value of RM106.9 million.

### Loans (Secured)

The Group's secured loans are in respect of the staff loans. The staff loans remained unchanged at RM18.9 million.

### Trade and Other Receivables

The Group's trade and other receivables increased to RM68.0 million from RM50.5 million in 2006 mainly attributed by the higher outstanding premium due from clients as a result of a few big risks that were booked towards the end of the year.

### Total Liabilities

The Group's total liabilities grew by 17.8% to RM422.4 million from RM358.5 million in 2006. The increase was mainly due to higher unearned premium reserves and provision for outstanding claims in tandem with the expanded business portfolio. The unearned premium reserves and provision for outstanding claims accounted for 88.8% of the Group's total liabilities. The details are shown in Notes 14 and 15 to the financial statements respectively.

### Unearned Premium Reserves

The Group's unearned premium reserves rose significantly to RM169.8 million from RM143.7 million in 2006, a growth of 18.2%. The increase was in line with the premium income growth.

## ANALYSIS OF THE FINANCIAL STATEMENTS

### Provision for Outstanding Claims

The Group's provision for outstanding claims increased to RM205.5 million from RM170.9 million in 2006. Thus, the net claims incurred ratio stood at 51.2%, which is deemed reasonable in view of the escalating industry loss ratio, particularly in the motor class of business.

### Trade and Other Payables

The Group's trade and other payables decreased by 9.2% to RM32.6 million from RM35.9 million in 2006. The decrease was attributed by the Group's policy in efficient settlement of outstanding balances.

### Shareholders' Equity

The Group's shareholders' equity remained strong at RM370.0 million despite the payment of high dividends amounting to RM110.7 million and share buy-back totalling RM2.9 million in 2007. This is due to the strong net profit of RM87.8 million registered in 2007. With improved earnings, the Group is expected to maintain a strong shareholders' equity.

## ANALYSIS OF THE INCOME STATEMENT

For the financial year ended 31 December 2007, the Group's revenue grew significantly by 16.5% to RM551.6 million whilst its profit before taxation rose to RM121.8 million from RM110.5 million in 2006, a growth of 10.2%. The Group's profit before taxation was generated mainly from the general insurance business, contributing RM94.2 million (2006 : RM87.0 million) as reflected in the Group's General Insurance Revenue Account.

### Revenue

Despite operating in a competitive business environment, the Group recorded a significant increase in revenue by 16.5% to RM551.6 million from RM473.5 million in 2006. The growth was achieved on the back of an increase in gross premium income by 16.5% to RM494.3 million from RM424.4 million in 2006 and also the substantial increase in dividend income by 19.7% to RM37.1 million from RM31.0 million in 2006.

### Gross Premium

The several business strategies and marketing efforts undertaken by the Group in 2007 were effective in increasing the Group's gross premium income. The increase of 16.5% in the Group's gross premium income to RM494.3 million was mainly attributed by the Motor and Fire classes of insurance, contributing 62% and 32% of the total increase in the gross premium income respectively.

### Net Premium and Earned Premium

In tandem with the growth in gross premium, both the Group's net premium and also earned premium increased during the year 2007. Net premium income grew by 26.4% to RM335.2 million from RM265.2 million in 2006 whilst the earned premium income grew by 22.8% to RM309.1 million from RM251.7 million in 2006. This reflects the effectiveness of the Group's reinsurance programme.

### Net Claims Incurred

The increase in the Group's net claims incurred corresponded with the growth in earned premium. The Group's net claims incurred increased by 29.4% to RM158.1 million from RM122.2 million in 2006. This was expected in the light of the high industry claims experience in 2007, particularly in the motor class of business. Hence, the overall claims incurred ratio increased to 51.2% from 48.5% in 2006.

## ANALYSIS OF THE FINANCIAL STATEMENTS

### Net Commission

The Group's net commission increased to RM30.4 million from RM17.5 million in 2006. The net commission ratio against net premium increased to 9.1% from 6.6% in 2006. The increase was in line with the growth in gross premium income.

### Management Expenses

The management expenses of the Group increased by 15.9% to RM62.0 million from RM53.5 million in 2006. The increased is consistent with the increased staff force in 2007. The staff costs constituted RM31.3 million or 50.5% of the total management expenses. The management expenses ratio against earned premium income reduced to 19.8% from 21.0% in 2006 as a result of improved work processes and delivery system.

### Underwriting Surplus

The Group maintained the underwriting surplus at RM59.2 million for the year 2007 despite operating in an increasing competitive market and escalating claims cost. The Group was able to maintain the quality of its business portfolio, recording underwriting surplus in all classes of insurance.

### Investment Income

The investment income increased significantly by 17.2% to RM56.6 million from RM48.3 million in 2006. The increase was due to the higher dividend income and interest income received during the financial year.

### Other Operating Income

The Group's other operating income increased to RM6.6 million from RM3.7 million in 2006. The increase was mainly arisen from revaluation gain in the Group's investment properties and gain on disposal of investment in bonds and shares.

### Tax Expenses

The Group's tax expenses for the year 2007 increased to RM34.0 million from RM32.4 million in 2006 in line with the higher profit achieved. The Group's effective tax rate of 27.9% was slightly higher than the statutory tax rate of 27.0% due to the non-tax deductible of certain expenses.

# Statement of Responsibility by Directors

pursuant to paragraph 15.27(a) of the Listing Requirements of Bursa Malaysia Securities Berhad

The Directors are responsible for ensuring that the annual audited financial statements of the Group and the Company are drawn up in accordance with the requirements of the applicable approved accounting standards for entity other than private entities issued by the Malaysian Accounting Standards Board, the provisions of the Companies Act, 1965, Bank Negara Malaysia's Guidelines and the Listing Requirements of Bursa Malaysia Securities Berhad.

The Directors are also responsible for ensuring that the annual audited financial statements of the Group and the Company are prepared with reasonable accuracy from the accounting records of the Group and the Company so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007, and of the results of their operations and cash flows for the year ended on that date.

In preparing the annual audited financial statements, the Directors have:

- applied the appropriate and relevant accounting policies on a consistent basis;
- made judgments and estimates that are reasonable and prudent; and
- prepared the annual audited financial statements on a going concern basis.

The Directors are also responsible for ensuring that the Group and the Company maintain proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and the Company.

The Directors also have a general responsibility for taking reasonable steps to safeguard the assets of the Group and the Company to prevent and detect fraud and other irregularities.

This Statement of Responsibility by Directors is made in accordance with the resolution of the Board of Directors dated 14 January 2008.

# Directors' Report

for the year ended 31 December 2007

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

## PRINCIPAL ACTIVITIES

The Company is engaged principally in investment holding whilst the principal activities of the subsidiaries are as stated in Note 5 to the financial statements. There have been no significant change in the nature of these principal activities during the financial year.

## RESULTS

	Group RM'000	Company RM'000
Net profit for the year	87,770	120,469

## RESERVES AND PROVISIONS

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

## DIVIDENDS

Since the end of the previous financial year, the Company paid:

- i) a special dividend of 25.00 sen per ordinary share less tax at 27% (18.25 sen net per ordinary share) and a final dividend of 55.00 sen per ordinary share less tax at 27% (40.15 sen net per ordinary share) totaling RM80,554,000 in respect of the year ended 31 December 2006 on 13 February 2007; and
- ii) an interim dividend of 30.00 sen per ordinary share less tax at 27% totaling RM30,163,000 (21.90 sen net per ordinary share) in respect of the year ended 31 December 2007 on 25 July 2007.

A special dividend and a final dividend recommended by the Directors in respect of the year ended 31 December 2007 are 25.00 sen per ordinary share less tax at 26% (18.50 sen net per ordinary share) and 55.00 sen per ordinary share less tax at 26% (40.70 sen net per ordinary share) respectively, on the issued and paid-up share capital as at entitlement date on 19 February 2008.

## DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Tan Sri Dato' Sri Dr. Teh Hong Piow  
 Dato' Yeoh Chin Kee  
 Tee Choon Yeow  
 Tan Kok Guan  
 Dato' Haji Abdul Aziz bin Omar [appointed on 9 October 2007]  
 Lee Chin Guan [resigned on 9 October 2007]  
 Geh Cheng Hooi [resigned on 29 November 2007]

**DIRECTORS' REPORT**

for the year ended 31 December 2007

**DIRECTORS' INTEREST**

The interest and deemed interest in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1.00 each				At 31.12.2007
	At 1.1.2007	Bought	Sold	Transferred in/(out)	
<b>Tan Sri Dato' Sri Dr. Teh Hong Piow</b>					
Interest in the Company:					
- own	1,952,000	-	-	-	1,952,000
Deemed interest in the Company:					
- own	59,123,000	-	-	-	59,123,000
- others	50,000	-	-	-	50,000
<b>Dato' Yeoh Chin Kee</b>					
Interest in the Company:					
- own	350,000	-	(215,000)	500,000	635,000
Deemed interest in the Company:					
- others	500,000	-	-	(500,000)	-
<b>Tee Choon Yeow</b>					
Interest in the Company:					
- own	400,000	-	-	-	400,000
Deemed interest in the Company:					
- others	100,000	-	-	-	100,000
<b>Tan Kok Guan</b>					
Deemed interest in the Company:					
- others	285,000	-	-	-	285,000

By virtue of his interests in the shares of the Company shown above, Tan Sri Dato' Sri Dr. Teh Hong Piow is deemed interested in the shares of the subsidiaries to the extent that LPI Capital Bhd has an interest.

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors or the fixed salaries of full time employees of the Company as disclosed in Note 22 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, other than a Director who has significant financial interests in companies which traded with the Group in the ordinary course of business as disclosed in Note 29 to the financial statements.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company.

## DIRECTORS' REPORT

for the year ended 31 December 2007

### ISSUE OF SHARES

There were no changes in the issued and paid-up capital of the Company during the financial year.

### OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the year.

### SHARE BUY-BACK

On 31 January 2007, the shareholders of the Company renewed their approval for the Company to buy-back its own shares. During the financial year, the Company bought back from the open market, 263,600 of its issued ordinary shares of RM1.00 each ("LPI Shares") listed on the Main Board of Bursa Securities at an average buy-back price of RM10.93 per ordinary share. The total consideration paid for the share buy-back of LPI Shares by the Company during the financial year, including transaction costs, was RM2,880,456 and was financed by internally generated funds. The LPI Shares bought back are held as treasury shares in accordance with Section 67A Subsection 3(A)(b) of the Companies Act, 1965. None of the treasury shares held were resold or cancelled during the financial year.

As at 31 December 2007, the Company held 1,051,200 LPI Shares as treasury shares out of its total issued and paid-up share capital of 138,723,000 LPI Shares. Such treasury shares are held at a carrying amount of RM8,589,726. Further information are as disclosed in Note 12 to the financial statements.

### OTHER STATUTORY INFORMATION

Before the balance sheets and income statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) there was adequate provision for incurred claims, including Incurred But Not Reported (IBNR) claims,
- ii) all known bad debts have been written off and adequate provision made for doubtful debts, and
- iii) all current assets have been stated at the lower of cost and net realisable value.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the Group and in the Company financial statements misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

**DIRECTORS' REPORT**

for the year ended 31 December 2007

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

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group 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 Group and of the Company to meet their obligations as and when they fall due.

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

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2007 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

**AUDITORS**

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board in accordance with a resolution of the Directors:

**Dato' Yeoh Chin Kee**

**Tee Choon Yeow**

Kuala Lumpur,  
Date: 14 January 2008

# Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 141 to 182 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2007 and of the results of their operations and cash flows for the year ended on that date.

Signed on behalf of the Board in accordance with a resolution of the Directors:

**Dato' Yeoh Chin Kee**

**Tee Choon Yeow**

Kuala Lumpur,  
Date: 14 January 2008

# Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, **Tee Choon Yeow**, the Director primarily responsible for the financial management of LPI Capital Bhd, do solemnly and sincerely declare that the financial statements set out on pages 141 to 182 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 14 January 2008.

**Tee Choon Yeow**

Before me:

**G. Ganesan**

Commissioner for Oath

Kuala Lumpur

# Report of the Auditors to the Members of LPI Capital Bhd

We have audited the financial statements set out on pages 141 to 182. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965, and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Company at 31 December 2007 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

**KPMG**

Firm Number: AF 0758  
Chartered Accountants

Kuala Lumpur,  
Date: 14 January 2008

**Khaw Hock Hoe**

Partner  
Approval Number: 2229/04/08(J)

## Balance Sheets

at 31 December 2007

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Assets</b>					
Property and equipment	3	5,755	7,997	-	-
Investment properties	4	9,990	8,546	-	-
Investment in subsidiary companies	5	-	-	101,100	101,100
Investment in associated company	6	10,424	-	10,833	-
Investments	7	673,271	662,145	217,727	220,938
Loans (secured)	8	18,965	18,927	-	-
Trade and other receivables	9	68,029	50,482	151	701
Cash and cash equivalents	10	5,955	6,593	63	145
<b>Total assets</b>		<b>792,389</b>	<b>754,690</b>	<b>329,874</b>	<b>322,884</b>
<b>Capital and reserves</b>					
Share capital	11	138,723	138,723	138,723	138,723
Treasury shares, at cost	12	(8,590)	(5,709)	(8,590)	(5,709)
Reserves		239,868	263,220	199,113	189,361
<b>Shareholders' equity</b>		<b>370,001</b>	<b>396,234</b>	<b>329,246</b>	<b>322,375</b>
<b>Liabilities</b>					
Deferred tax liabilities	13	-	392	-	-
Unearned premium reserves	14	169,792	143,660	-	-
Provision for outstanding claims	15	205,454	170,862	-	-
Trade and other payables	16	32,581	35,886	255	237
Taxation		14,561	7,656	373	272
<b>Total liabilities</b>		<b>422,388</b>	<b>358,456</b>	<b>628</b>	<b>509</b>
<b>Total liabilities and shareholders' equity</b>		<b>792,389</b>	<b>754,690</b>	<b>329,874</b>	<b>322,884</b>

The notes on pages 148 to 182 are an integral part of these financial statements.

# Income Statements

for the year ended 31 December 2007

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Revenue</b>	18	<b>551,624</b>	473,490	<b>166,045</b>	92,172
Transfer from general insurance revenue account		<b>94,219</b>	86,975	-	-
Investment income	19	<b>28,218</b>	24,052	<b>166,045</b>	92,172
Management expenses	21	<b>(679)</b>	(545)	<b>(658)</b>	(527)
<b>Results from operating activities</b>		<b>121,758</b>	110,482	<b>165,387</b>	91,645
Share of profit after tax of equity accounted associated company	6	<b>8</b>	-	-	-
<b>Profit before taxation</b>		<b>121,766</b>	110,482	<b>165,387</b>	91,645
Tax expense	23	<b>(33,996)</b>	(32,354)	<b>(44,918)</b>	(25,676)
<b>Net profit for the year</b>		<b>87,770</b>	78,128	<b>120,469</b>	65,969
<b>Attributable to:</b>					
Shareholders of the Company		<b>87,770</b>	78,128	<b>120,469</b>	65,969
Basic earnings per ordinary share (sen)	24	<b>63.8</b>	56.6		

The notes on pages 148 to 182 are an integral part of these financial statements.