

General Insurance Revenue Account

for the year ended 31 December 2007

Group	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium		155,832	133,499	169,412	126,151	16,841	17,728	152,204	147,062	494,289	424,440
Less: Reinsurance		(63,932)	(53,512)	(14,907)	(17,527)	(7,160)	(9,303)	(73,067)	(78,890)	(159,066)	(159,232)
Net premium		91,900	79,987	154,505	108,624	9,681	8,425	79,137	68,172	335,223	265,208
Movement in unearned premium reserves	14	(3,691)	(4,619)	(17,959)	(8,520)	118	(637)	(4,600)	254	(26,132)	(13,522)
Earned premium		88,209	75,368	136,546	100,104	9,799	7,788	74,537	68,426	309,091	251,686
Net claims incurred	26	(25,513)	(18,893)	(83,666)	(59,055)	(5,415)	(3,315)	(43,529)	(40,887)	(158,123)	(122,150)
Net commission		(9,757)	(5,356)	(16,204)	(10,277)	(1,094)	(513)	(3,360)	(1,339)	(30,415)	(17,485)
		(35,270)	(24,249)	(99,870)	(69,332)	(6,509)	(3,828)	(46,889)	(42,226)	(188,538)	(139,635)
Underwriting surplus before management expenses		52,939	51,119	36,676	30,772	3,290	3,960	27,648	26,200	120,553	112,051
Management expenses	21									(61,322)	(52,940)
Underwriting surplus										59,231	59,111
Investment income	19									28,378	24,213
Other operating income - net	20									6,610	3,651
Transfer to income statement										94,219	86,975

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

Statements of Changes in Equity

for the year ended 31 December 2007

Group	Note	Non-distributable					Distributable		Total RM'000
		Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Property revaluation reserve RM'000	Capital reserve RM'000	Foreign exchange reserve RM'000	Retained profits RM'000	
At 1 January 2006		138,723	(4,430)	104,635	709	209	5,338	145,016	390,200
Change in accounting policy:									
Effect of adopting FRS 140		-	-	-	2,903	-	-	1,400	4,303
Deferred tax relating to adoption of FRS 140		-	-	-	-	-	-	(392)	(392)
		-	-	-	2,903	-	-	1,008	3,911
At 1 January 2006, restated		138,723	(4,430)	104,635	3,612	209	5,338	146,024	394,111
Currency translation differences		-	-	-	-	-	(161)	-	(161)
Net losses not recognised in the income statement		-	-	-	-	-	(161)	-	(161)
Share buy-back		-	(1,279)	-	-	-	-	-	(1,279)
Net profit for the year		-	-	-	-	-	-	78,128	78,128
Dividends	25	-	-	-	-	-	-	(74,565)	(74,565)
At 31 December 2006/ 1 January 2007		138,723	(5,709)	104,635	3,612	209	5,177	149,587	396,234
Currency translation differences		-	-	-	-	-	(405)	-	(405)
Net losses not recognised in the income statement		-	-	-	-	-	(405)	-	(405)
Share buy-back		-	(2,881)	-	-	-	-	-	(2,881)
Net profit for the year		-	-	-	-	-	-	87,770	87,770
Dividends	25	-	-	-	-	-	-	(110,717)	(110,717)
At 31 December 2007		138,723	(8,590)	104,635	3,612	209	4,772	126,640	370,001
		Note 11	Note 12						

(a) The property revaluation reserve represents the surplus on revaluation of investment properties. It is not distributable as cash dividends until after the sale of the investment properties.

(b) The capital reserve represents gain arising from disposal of investment (realised) by a subsidiary and is not distributable as provided under the subsidiary's Memorandum and Articles of Association.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2007

Company	Note	Non-distributable				Distributable		
		Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Capital reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2006		138,723	(4,430)	104,635	10	6,492	86,820	332,250
Share buy-back		-	(1,279)	-	-	-	-	(1,279)
Net profit for the year		-	-	-	-	-	65,969	65,969
Dividends	25	-	-	-	-	-	(74,565)	(74,565)
At 31 December 2006		138,723	(5,709)	104,635	10	6,492	78,224	322,375
Share buy-back		-	(2,881)	-	-	-	-	(2,881)
Net profit for the year		-	-	-	-	-	120,469	120,469
Dividends	25	-	-	-	-	-	(110,717)	(110,717)
At 31 December 2007		138,723	(8,590)	104,635	10	6,492	87,976	329,246
		Note 11	Note 12				Note 17	

(a) Capital reserve represents the amount transferred from retained profits in respect of gain on disposal of investment to a subsidiary and foreign exchange reserves and property revaluation reserve realised on transfer of certain assets and liabilities to a subsidiary in prior years.

Cash Flow Statements

for the year ended 31 December 2007

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash flows from operating activities				
Profit before taxation	121,766	110,482	165,387	91,645
Adjustments for:				
Depreciation	3,480	3,732	-	-
Gain on disposal of property and equipment	(179)	(7)	-	-
Gain on disposal of investments	(3,095)	(765)	(1,391)	-
Movement in unearned premium reserves	26,132	13,522	-	-
Interest paid on reinsurers' deposits	2	3	-	-
Investment income	(55,683)	(48,265)	(164,459)	(92,172)
Provision for outstanding claims	34,592	21,077	-	-
Provision for/ (Writeback of) diminution in value of investments	132	(33)	-	-
Share of profit of equity accounted associate	(8)	-	-	-
Fair value movement in investment properties	(1,444)	(527)	-	-
Amortisation of premiums, net of accretion of discounts	478	584	(195)	-
Profit/ (Loss) from operations before changes in operating assets and liabilities	126,173	99,803	(658)	(527)
Changes in operating assets and liabilities				
Decrease in lease receivables	29	33	-	-
Increase in due premiums including agents/ brokers and co-insurers balances and amount due from reinsurers and cedants	(18,067)	(389)	-	-
Decrease in other receivables, deposits and prepayments and income due and accrued	491	891	550	658
Increase in staff loans	(38)	(2,006)	-	-
Decrease in amount due to reinsurers, cedants, agents/ brokers, co-insurers and insureds	(4,749)	(5,726)	-	-
Increase in other payables and accrued expenses	1,444	1,554	18	26
Increase/ (Decrease) in fixed deposits	3,325	(15,483)	34,732	29,627
Fair value movement in investment properties	-	(1,430)	-	-
Repayment/ (Issuance) of corporate loan	500	(6,000)	-	-
Purchase of Malaysian Government Securities	(9,097)	(5,325)	-	-
Purchase of unquoted debentures, bonds, unit trust and loan stocks	(39,078)	(26,166)	-	(20,000)
Purchase of other investments	(22,933)	(2,819)	(62,494)	-

CASH FLOW STATEMENTS

for the year ended 31 December 2007

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Changes in operating assets and liabilities (Cont'd)				
Proceeds from maturity of Malaysian Government Securities	11,000	4,500	-	-
Proceeds from disposal of unquoted debentures, bonds, unit trust and loan stocks	39,699	14,548	31,291	-
Proceeds from disposal of investment	20,186	5,601	1,268	-
Interest paid on reinsurers' deposits	(2)	(3)	-	-
Dividend income received	37,082	30,989	162,794	88,613
Interest income received	18,282	17,272	1,665	3,151
Other income received	319	180	-	-
Cash generated from operating activities before tax	164,566	110,024	169,166	101,548
Tax paid	(39,726)	(27,060)	(44,817)	(25,714)
Net cash generated from operating activities	124,840	82,964	124,349	75,834
Cash flows from investing activities				
Investment in associate company	(10,833)	-	(10,833)	-
Proceeds from disposal of property and equipment	286	13	-	-
Purchase of property and equipment	(1,345)	(2,521)	-	-
Fair value adjustment for properties prior to transfer to investment properties	-	(2,903)	-	-
Net cash used in investing activities	(11,892)	(5,411)	(10,833)	-
Cash flows from financing activities				
Dividend paid to shareholders of the Company	(110,717)	(74,565)	(110,717)	(74,565)
Buy-back of shares	(2,881)	(1,279)	(2,881)	(1,279)
Net cash used in financing activities	(113,598)	(75,844)	(113,598)	(75,844)
Net (decrease)/ increase in cash and cash equivalents	(650)	1,709	(82)	(10)
Cash and cash equivalents at beginning of year	6,593	5,045	145	155
Foreign exchange differences on opening balances	12	(161)	-	-
Cash and cash equivalents at end of year	5,955	6,593	63	145

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

Notes to the Financial Statements

LPI Capital Bhd is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of the Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

REGISTERED OFFICE/ PRINCIPAL PLACE OF BUSINESS

6th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company, its subsidiaries and the Group's interest in an associate (together referred to as the Group). The financial statements of the Company as at and for the year ended 31 December 2007 do not include other entities.

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiaries are as stated in Note 5 to the financial statements.

The financial statements were approved by the Board of Directors on 14 January 2008.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved Financial Reporting Standards (FRS) issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965, the Insurance Act and Regulations, 1996 and Guidelines/ Circular issued by Bank Negara Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The accounting policies adopted by the Group and the Company are consistent with those adopted in the previous year except for the adoption of the new and revised FRSs issued by MASB that are effective for the financial period beginning on 1 January 2007 as follows:

- FRS 117 Leases
- FRS 124 Related Party Disclosures
- FRS 128 Investments in Associates

1. BASIS OF PREPARATION (CONT'D)**(a) Statement of compliance (Cont'd)**

Other than the expanded disclosure requirements as shown in Notes 6 and 29, the adoption of FRS 117, FRS 124 and FRS 128 does not have any significant financial impact on the Group and the Company.

The MASB has also issued the following FRSs and Interpretations that are effective for financial periods beginning after 1 January 2007 and that have not been applied in preparing these financial statements.

Standard/ Interpretation	Effective date
FRS 107, <i>Cash Flow Statements</i>	1 July 2007
FRS 111, <i>Construction Contracts</i>	1 July 2007
FRS 112, <i>Income Taxes</i>	1 July 2007
FRS 118, <i>Revenue</i>	1 July 2007
FRS 119, <i>Employee Benefits</i>	1 July 2007
FRS 120, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	1 July 2007
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>	1 July 2007
FRS 126, <i>Accounting and Reporting by Retirement Benefits Plan</i>	1 July 2007
FRS 129, <i>Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
FRS 134, <i>Interim Financial Reporting</i>	1 July 2007
FRS 137, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	1 July 2007
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	To be announced
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS 129₂₀₀₄ Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007

The Group and the Company plans to apply the above mentioned FRSs and Interpretations (except for FRS 111, FRS 120, FRS 126, FRS 129, IC Interpretations 1, 2, 5, 6, 7 as explained below and FRS 139 of which its effective date has yet to be announced) for annual periods beginning 1 January 2008. The initial application of the said FRSs and Interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

FRS 111, FRS 120, FRS 126, FRS 129, IC Interpretations 1, 2, 5, 6 and 7 are not applicable to the Group and Company. Hence, no further disclosure is warranted.

The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemption given in paragraph FRS139.103AB.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION (CONT'D)

(b) Basis of measurement

The financial statements of the Group and the Company have been prepared on the historical cost basis except as disclosed in the Note 2(d) to the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

Note 2 (d) - Valuation of investment properties

Note 2 (k) - Provision for outstanding claims

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses (if any), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(a) Basis of Consolidation (Cont'd)***(ii) Associates*

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the post tax income and expenses of the equity accounted associates, after any adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Investments in associates are stated in the Company's balance sheet at cost less any impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Currency conversion and translation*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on retranslation are recognised in the income statement.

(ii) Financial statements of Singapore branch

The assets and liabilities of a subsidiary's Singapore branch, which operates in functional currency other than RM, are translated to RM at exchange rates ruling at the balance sheet date. The revenues and expenses of the branch are translated to RM at average exchange rates applicable throughout the year.

Foreign currency differences are recognised in foreign exchange reserve. On disposal of the branch, accumulated foreign exchange differences will be recognised in the consolidated income statement as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Currency conversion and translation (Cont'd)

(iii) *Investment in foreign associate*

The carrying amount of the investment is translated to RM at the exchange rates ruling at the balance sheet date. The share of results for the year is translated at the average exchange rates applicable throughout the year.

Foreign currency differences are recognised in foreign exchange reserve. On disposal, accumulated foreign exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

(c) Property and equipment

(i) *Recognition and measurement*

Property and equipment except for capital work-in-progress and long leasehold office premises are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Capital work-in-progress is stated at cost less impairment losses, if any. Long leasehold office premises are stated at valuation less impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the disposed property and are recognised within "other operating income/ (expenses) - net" in the income statements.

(ii) *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

(iii) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Capital work-in-progress are not depreciated until the assets are ready for their intended use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(c) Property and equipment (Cont'd)***(iii) Depreciation (Cont'd)*

The estimated useful lives for the current and comparative periods are as follows:

- Long leasehold office premises 50 years
- Office equipment 4 years
- Furniture and fittings 4 years
- Renovation 5 years
- Computers 4 years
- Motor vehicles 5 years

The depreciable amount is determined after deducting the residual value.

Depreciation method, useful lives and residual values are reassessed at each balance sheet date.

(d) Investment properties*(i) Investment properties carried at fair value*

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement.

(ii) Reclassifications to/ from investment properties carried at fair value

When an item of property and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon disposal of investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Investment properties (Cont'd)

(iii) Determination of fair value

Independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio annually.

Fair value of investment properties is determined by comparing its current value with recent sale of similar properties in the vicinity with appropriate adjustments made to differences in location, floor area and other relevant factors before arriving at the fair value of the investment properties. The determination of appropriate adjustments to the recent sale value involves a degree of judgement before arriving at the respective investment property's fair value.

The fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and, without compulsion.

(e) Investments

Investments are recognised initially at purchase price plus attributable transaction costs. Subsequent to initial recognition:

- Malaysian and Singapore Government Securities, Malaysian Government Guaranteed Loan, unquoted bonds and other investments as specified by Bank Negara Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts calculated on a constant yield basis, from the date of purchase to maturity date. The amortisation of premiums and accretion of discounts are recognised in the revenue account.

- Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that if diminution in value of a particular investment is not regarded as temporary, provision is made against the value of that investment.

Diminution in value of a particular investment is not regarded as temporary when the market value has been less than 80% of its cost at all times during the preceding 24 months, and a specific allowance for diminution in value will be made by writing down the cost of that quoted investment to the average median price for each month during that 24 month period.

- Unquoted equity investments are stated at cost. A provision is made when the Directors are of the view that there is a diminution in their value which is other than temporary.

On disposal of investments, the difference between net disposal proceeds and the carrying amount is recognised in the revenue account/ income statement.

(f) Impairment of assets

The carrying amount of assets, except for investment property that is measured at fair value and financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are group together into the smallest groups of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (the "cash-generating unit").

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Impairment of assets (Cont'd)**

An impairment loss is recognised in the income statement if the carrying amount of an asset or its cash-generating unit, exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a *pro rata* basis.

Impairment losses, if any, recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

(g) Lease receivables

Finance lease receivables are recognised in the financial statements using the finance lease method and are presented as a receivable at an amount equal to the net investment in the lease less any allowance for doubtful debts.

(h) Trade and other receivables

Trade and other receivables are initially recognised at their cost when the contractual right to received cash or another financial asset from another entity is established.

Subsequent to initial recognition, trade and other receivables are stated at cost less allowance for doubtful debts.

Known bad debts are written off and specific allowances are made as follows:

- (i) motor premiums which remain outstanding for more than 30 days from the date on which they become receivable;
- (ii) non-motor premiums, including agents or reinsurance balances, which remain outstanding for more than six (6) months from the date on which they become receivable; and
- (iii) all debts which are considered doubtful.

Trade and other receivables are not held for the purpose of trading.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks but excludes fixed deposits classified as investments.

(j) Trade and other payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) General insurance underwriting results

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

Premium income

Premium is recognised in a financial period in respect of risks assumed during that particular financial period except for inward treaty reinsurance premiums which are recognised on the basis of periodic advices/ accounts received from ceding insurers.

Unearned Premium Reserves

The Unearned Premium Reserves (UPR) represents 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 period.

In determining the UPR at balance sheet date, the method that most accurately reflects the actual unearned premium is used and is as follows:

Annual policies

- (i) 25% method for marine cargo, aviation cargo and transit business.
- (ii) 1/24th method for all other classes of Malaysian general policies and overseas inward business.

The UPR calculation is adjusted for additional UPR as required under the guidelines issued by Bank Negara Malaysia in respect of premiums ceded to overseas reinsurers.

Non annual policies

Premium are apportioned evenly over the period the policy is on risk.

Provision for outstanding claims

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

Provision is also made for the cost of claims, together with related expenses incurred but not reported at balance sheet date, using a mathematical method of estimation carried out by an external actuary.

Estimating the provision for outstanding claims, involves projection of the Company's future claims experience based on current claims experience. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

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. Acquisition costs or ceding income which are not recoverable, or not payable in the event of a termination of the policy to which they relate, are not deferred but are recognised in the period in which they occur.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(l) Taxation**

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) Other income recognition**(i) Interest income**

Interest income on loans and other interest-bearing investments are recognised on an accrual basis except where a loan is considered non-performing i.e. where repayments are in arrears for more than six (6) months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

Finance income from the financing of leases is recognised in the income statement based on a pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease.

(ii) Rental income

Rental income is recognised on an accrual basis except where default in payment of rent has already occurred and rent due remains outstanding for over six (6) months, in which case recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

(iii) Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Employee benefits

Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group's contributions to the statutory pension funds are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(o) Treasury shares

When share capital recognised as equity is repurchased, the amount of consideration paid, including directly attributable costs. Repurchased shares are classified as treasury shares and presented as a deduction from shareholders' equity.

When treasury shares are distributed as share dividends, the cost of the treasury shares is applied in the reduction of the share premium account or distributable reserves, or both.

Where treasury share are reissued by re-sale in the open market, the difference between the share consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(p) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period. No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Group	Long leasehold office premises RM'000	Office equipment RM'000	Furniture and fittings RM'000	Renovation RM'000	Computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
Cost/ Valuation								
At 1 January 2006	4,567	773	3,331	3,716	13,258	3,055	56	28,756
Additions	-	42	343	516	1,192	313	115	2,521
Offset of accumulated depreciation on property transferred to investment properties	(1,281)	-	-	-	-	-	-	(1,281)
Fair value adjustment prior to transfer to investment properties	2,903	-	-	-	-	-	-	2,903
Transfer to investment properties (Note 4)	(6,189)	-	-	-	-	-	-	(6,189)
Disposals	-	(6)	(3)	(25)	-	(14)	-	(48)
Written off	-	(9)	(24)	(24)	-	-	-	(57)
Exchange differences	-	2	5	7	9	4	-	27
At 31 December 2006/ 1 January 2007	-	802	3,652	4,190	14,459	3,358	171	26,632
Additions	-	2	101	72	653	154	363	1,345
Transfer to property and equipment	-	-	45	112	130	-	(287)	-
Disposals	-	-	(17)	-	-	(350)	-	(367)
Written off	-	(8)	(5)	-	(12)	-	-	(25)
At 31 December 2007	-	796	3,776	4,374	15,230	3,162	247	27,585

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT (CONT'D)

Group	Long leasehold office premises RM'000	Office equipment RM'000	Furniture and fittings RM'000	Renovation RM'000	Computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
Accumulated depreciation								
At 1 January 2006	1,281	566	2,157	2,175	8,478	1,604	-	16,261
Charge for the year	-	112	537	560	1,911	612	-	3,732
Offset of accumulated depreciation on property transferred to investment properties	(1,281)	-	-	-	-	-	-	(1,281)
Disposals	-	(4)	(3)	(25)	-	(10)	-	(42)
Written off	-	(9)	(24)	(23)	-	-	-	(56)
Exchange differences	-	1	4	5	8	3	-	21
At 31 December 2006/ 1 January 2007	-	666	2,671	2,692	10,397	2,209	-	18,635
Charge for the year	-	80	460	492	1,999	449	-	3,480
Disposals	-	-	(17)	-	-	(243)	-	(260)
Written off	-	(8)	(5)	-	(12)	-	-	(25)
At 31 December 2007	-	738	3,109	3,184	12,384	2,415	-	21,830
Carrying amount								
At 1 January 2006	3,286	207	1,174	1,541	4,780	1,451	56	12,495
At 31 December 2006/ 1 January 2007	-	136	981	1,498	4,062	1,149	171	7,997
At 31 December 2007	-	58	667	1,190	2,846	747	247	5,755

Included in property and equipment are the following fully depreciated assets which are still in use:

	Group	
	2007 RM'000	2006 RM'000
At cost:		
Office equipment	509	461
Furniture and fittings	2,110	1,653
Renovation	1,840	1,811
Computers	8,131	6,741
Motor vehicles	1,556	638

NOTES TO THE FINANCIAL STATEMENTS

4. INVESTMENT PROPERTIES

Group	Note	2007 RM'000	2006 RM'000
At 1 January		8,546	400
Effect of movements in exchange rates		-	30
Transfer from property and equipment	3	-	6,189
Change in fair value - retained earnings		-	1,400
Change in fair value - income statement		1,444	527
At 31 December		<u>9,990</u>	<u>8,546</u>

Investment properties comprise commercial properties that are leased to third parties.

The following are recognised in the income statement in respect of investment properties:

Group	2007 RM'000	2006 RM'000
Rental income	319	180
Direct operating expenses	(3)	(5)

5. INVESTMENT IN SUBSIDIARY COMPANIES

	Company	
	2007 RM'000	2006 RM'000
At cost:		
Unquoted shares	<u>101,100</u>	<u>101,100</u>

Details of subsidiaries, which are all incorporated in Malaysia are as follows:

Name of subsidiaries	Principal activities	Effective ownership interest	
		2007 %	2006 %
Lonpac Insurance Bhd	Underwriting of general insurance	100	100
London & Pacific Holdings Sdn Bhd	Investment holding	100	100
Public United Leasing and Factoring Sdn Bhd	Financing of leases	100	100

NOTES TO THE FINANCIAL STATEMENTS

6. INVESTMENT IN ASSOCIATED COMPANY

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Unquoted shares, at cost	10,833	-	10,833	-
Share of post acquisition reserves*	8	-	-	-
Post acquisition foreign exchange translation reserve	(417)	-	-	-
	10,424	-	10,833	-

Summary financial information on associate:

Company	Country of incorporation	Effective ownership interest	Revenues	Profit / (Loss)	Total assets	Total liabilities
		2007 %	(100%) RM'000	(100%) RM'000	(100%) RM'000	(100%) RM'000
CampuBank Lonpac Insurance Plc	Cambodia	45	1,924	18	25,291	2,175

During the year, the Company acquired a 45% interest in CampuBank Lonpac Insurance Plc. This investment was established to develop the Group's insurance business in Cambodia.

* Share of post acquisition reserves of the investment in associate is accounted for using management accounts as at 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

7. INVESTMENTS

	2007		2006	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Group				
Malaysian Government Securities	38,238		41,740	
Amortisation of premiums	(1,394)		(2,337)	
	36,844		39,403	
Malaysian Government Guaranteed Loan	10,000		10,136	
Amortisation of premiums	-		(118)	
	10,000		10,018	
Singapore Government Securities	3,725		3,725	
Amortisation of premiums	(221)		(170)	
	3,504		3,555	
Quoted:				
Unit trust				
In Malaysia	24,987	25,918	24,988	26,044
Outside Malaysia	104	343	102	293
	25,091	26,261	25,090	26,337
Quoted:				
Equity securities in corporations				
In Malaysia	104,924	606,037	91,249	426,897
Outside Malaysia	2,013	2,147	330	588
	106,937	608,184	91,579	427,485
Unquoted:				
Equity securities in corporations				
In Malaysia	235		235	
Outside Malaysia	56		56	
	291		291	
Provision for diminution in value	(56)		(56)	
	235		235	
Unquoted:				
Debentures, bonds and loan stocks	28,726		24,312	
Provision for diminution in value	(455)		(422)	
(Amortisation of premium)/ Accretion of discounts	(14)		2,147	
	28,257		26,037	

NOTES TO THE FINANCIAL STATEMENTS

7. INVESTMENTS (CONT'D)

	2007		2006	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Group (Cont'd)				
Corporate loan	5,500		6,000	
	216,368		201,917	
Fixed deposits with:				
- licensed banks in Malaysia	391,970		406,349	
- banks outside Malaysia	64,933		47,879	
- licensed finance companies	-		6,000	
	456,903		460,228	
Total investments	673,271		662,145	
Company				
Quoted:				
Equity securities in corporations				
In Malaysia	126,156	420,381	64,930	262,434
Unquoted:				
Bonds	-		8,178	
Accretion of discounts	-		1,527	
	-		9,705	
Quoted:				
Unit trust				
In Malaysia	-	-	20,000	20,442
	126,156		94,635	
Fixed deposits with:				
- licensed banks in Malaysia	91,571		126,303	
	91,571		126,303	
Total investments	217,727		220,938	

Included in the Group's fixed deposits with banks outside Malaysia are deposits amounting to RM1,135,000 (SGD500,000) (2006 - RM1,135,000 (SGD500,000)) lodged with the Monetary Authority of Singapore as a statutory deposit under Section 14 of the Singapore Insurance Act, Chapter 142.

Included in the Group's and Company's investments in shares of corporations quoted in Malaysia are investments in Public Bank Berhad shares with a carrying value of RM100,763,000 (2006 - RM88,320,000) and RM126,156,000 (2006 - RM64,930,000), respectively.

NOTES TO THE FINANCIAL STATEMENTS

8. LOANS (SECURED)

	Group	
	2007 RM'000	2006 RM'000
Staff loans:		
Receivable within twelve months	1,758	1,787
Receivable after twelve months	17,207	17,140
	18,965	18,927

9. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Trade receivables:					
Due premiums including agents/ brokers and co-insurers balances		44,071	39,237	-	-
Due from reinsurers and cedants		18,285	5,563	-	-
Less: Allowance for doubtful debts	9.1	(1,052)	(1,563)	-	-
		61,304	43,237	-	-
Other receivables:					
Other receivables, deposits and prepayments		3,326	3,115	9	20
Income due and accrued		3,396	4,098	142	681
		6,722	7,213	151	701
		68,026	50,450	151	701
Lease receivables	9.2	3	32	-	-
Total trade and other receivables		68,029	50,482	151	701

9.1 During the year, doubtful debts of RM663,000 (2006 – RM173,000) was written off against the allowance for doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS

9. TRADE AND OTHER RECEIVABLES (CONT'D)

9.2 Lease receivables

	Group	
	2007 RM'000	2006 RM'000
Receivables within twelve months	3	31
Less: Unexpired lease income	-	(2)
	3	29
Receivables after twelve months	-	3
Less: Unexpired lease income	-	-
	-	3
	3	32

10. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and bank balances	5,955	6,593	63	145

11. SHARE CAPITAL

	Company			
	Amount 2007 RM'000	Number of shares 2007 '000	Amount 2006 RM'000	Number of shares 2006 '000
Ordinary shares of RM1.00 each Authorised	500,000	500,000	500,000	500,000
Issued and fully paid	138,723	138,723	138,723	138,723

12. TREASURY SHARES

The balance relates to the acquisition cost of treasury shares.

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.

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. As at 31 December 2007, the number of outstanding shares in issued and paid-up is therefore 137,671,800 ordinary shares of RM1.00 each.

None of the treasury shares held were resold or cancelled during the financial year. Treasury shares have no rights to voting, dividends or participation in other distribution.

13. DEFERRED TAX LIABILITIES**Recognised deferred tax liabilities**

Recognised deferred tax liabilities are attributable to the following:

	Group	
	2007 RM'000	2006 RM'000
Investment properties	-	392

14. UNEARNED PREMIUM RESERVES

Group	Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscellaneous RM'000	Total RM'000
2007					
At 1 January	39,060	53,318	3,428	47,854	143,660
Increase/ (Decrease)	3,691	17,959	(118)	4,600	26,132
At 31 December	42,751	71,277	3,310	52,454	169,792
2006					
At 1 January	34,433	44,761	2,789	47,973	129,956
Increase/ (Decrease)	4,619	8,520	637	(254)	13,522
Movement taken up in foreign exchange reserve	8	37	2	135	182
At 31 December	39,060	53,318	3,428	47,854	143,660

NOTES TO THE FINANCIAL STATEMENTS

15. PROVISION FOR OUTSTANDING CLAIMS

	Group	
	2007 RM'000	2006 RM'000
Provision for outstanding claims	399,784	327,467
Less: Recoverable from reinsurers	(194,330)	(156,605)
Net outstanding claims	205,454	170,862

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Trade payables:				
Due to reinsurers and cedants	18,115	23,027	-	-
Due to agents/ brokers, co-insurers and insureds	4,093	3,930	-	-
	22,208	26,957	-	-
Other payables:				
Other payables and accrued expenses	10,373	8,929	255	237
	32,581	35,886	255	237

Included in the Group's other payables and accrued expenses are the following balances:

	2007 RM'000	2006 RM'000
Collateral deposits received from policyholders	69,811	80,364
Less: Fixed deposits - cash collateral	(69,535)	(79,985)
	276	379

The above balances are netted off as the fixed deposits are held as cash collateral for guarantees issued on behalf of policyholders.

17. RETAINED PROFITS (DISTRIBUTABLE)

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained profits at 31 December 2007 if paid out as dividends.

The Malaysian Budget 2008 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS

18. REVENUE

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Gross premium	494,289	424,440	-	-
Dividend income	37,082	30,989	162,794	88,613
Interest income	18,280	17,267	1,665	3,151
Lease interest income	2	5	-	-
Rental of premises	319	180	-	-
Accretion of discounts	261	609	195	408
Profit on disposal of other investment	1,391	-	1,391	-
	551,624	473,490	166,045	92,172

19. INVESTMENT INCOME

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<i>Insurance fund</i>				
Gross dividends				
- unit trust	257	175	-	-
- quoted shares in Malaysia	12,339	10,800	-	-
- quoted shares outside Malaysia	219	133	-	-
- unquoted shares in Malaysia	71	82	-	-
Interest income				
- Corporate loan	290	271	-	-
- Malaysian Government Securities	2,282	2,486	-	-
- Malaysian Government Guaranteed Loan	420	400	-	-
- Cagamas bonds	-	116	-	-
- Singapore Government Securities	160	195	-	-
- Debentures/ Bonds/ Loan Stocks (unquoted)	754	407	-	-
- Fixed deposits	11,940	9,552	-	-
Rental of properties received from third parties	319	180	-	-
Amortisation of premiums, net of accretion of discounts	(673)	(584)	-	-
	28,378	24,213	-	-

NOTES TO THE FINANCIAL STATEMENTS

19. INVESTMENT INCOME (CONT'D)

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<i>Non-insurance fund</i>				
Interest income				
- Fixed deposits	2,434	3,840	1,665	3,151
- Lease receivables	2	5	-	-
Accretion of discounts	195	408	195	408
Gross dividends				
- quoted shares in Malaysia	23,399	19,799	21,997	18,613
- unquoted subsidiary	-	-	140,000	70,000
- unit trust	797	-	797	-
Gain on disposal of investment	1,391	-	1,391	-
	28,218	24,052	166,045	92,172
Total investment income	56,596	48,265	166,045	92,172

20. OTHER OPERATING INCOME - NET

	Group	
	2007 RM'000	2006 RM'000
<i>Insurance fund</i>		
Gain on disposal of investments	1,704	765
Gain on disposal of property and equipment	179	7
Interest on staff car loans	183	183
Interest on staff housing loans	447	404
Interest received on inward treaties	1	-
(Provision for)/ Writeback of diminution in value of investment	(132)	33
Sundry income	2,784	1,732
Fair value movement in investment properties	1,444	527
	6,610	3,651

NOTES TO THE FINANCIAL STATEMENTS

21. MANAGEMENT EXPENSES

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Insurance fund					
Personnel expenses (including key management personnel)	21.1				
- Wages, salaries and others		28,389	25,335	-	-
- Contributions to Employees' Provident Fund		2,910	2,546	-	-
		31,299	27,881	-	-
Auditors' remuneration					
- current year		281	246	-	-
Bad and doubtful debts provided/ (written back)		152	(241)	-	-
Depreciation		3,480	3,732	-	-
Rental expense on office premises		3,326	3,216	-	-
Interest paid on reinsurers' deposits		2	3	-	-
IGSF levies		721	595	-	-
Other expenses		22,061	17,508	-	-
		61,322	52,940	-	-
Non-insurance fund					
Directors' fees	22	205	198	205	198
Auditors' remuneration		60	52	45	40
Other expenses		414	295	408	289
		679	545	658	527
Total management expenses		62,001	53,485	658	527

21.1 The subsidiary of the Company, Lonpac Insurance Bhd, is providing the administrative services to the Group, and as such, the staff costs are borne by the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

22. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Executive Directors				
- Fees	160	155	60	54
- Salaries and contribution to Employees' Provident Fund	1,058	918	-	-
- Bonuses	584	528	-	-
- Benefits-in-kind	72	68	-	-
	1,874	1,669	60	54
Non-Executive Directors				
- Fees	537	548	145	144
- Benefits-in-kind	22	36	-	-
- Other remuneration	72	72	-	-
	631	656	145	144
Total Directors' Remuneration	2,505	2,325	205	198
Total Directors' Remuneration (excluding benefits-in-kind)	2,411	2,221	205	198

The total remuneration (including benefits-in-kind) of the Directors are as follow:

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Executive Directors				
- Tee Choon Yeow	1,175	1,062	30	27
- Tan Kok Guan	699	607	30	27
	1,874	1,669	60	54
Non-Executive Directors				
- Tan Sri Dato' Sri Dr. Teh Hong Piow	248	260	60	60
- Dato' Yeoh Chin Kee	134	132	30	28
- Lee Chin Guan	103	132	23	28
- Geh Cheng Hooi	113	132	25	28
- Dato' Haji Abdul Aziz bin Omar	33	-	7	-
	631	656	145	144

NOTES TO THE FINANCIAL STATEMENTS

23. TAX EXPENSE

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Current tax expense				
Malaysian - current year	34,756	31,901	44,918	25,676
- prior years	(401)	402	-	-
Overseas - current year	33	51	-	-
Total current tax	34,388	32,354	44,918	25,676
Deferred tax expense				
Malaysian - prior year	(392)	-	-	-
	33,996	32,354	44,918	25,676
Reconciliation of effective tax expense				
Profit for the year	87,770	78,128	120,469	65,969
Total taxation	33,996	32,354	44,918	25,676
Profit excluding tax	121,766	110,482	165,387	91,645
Income tax using Malaysian tax rates of 27% (2006: 28%)	32,877	30,936	44,654	25,661
Effect of different tax rates for offshore business	(656)	(404)	-	-
Non-deductible expenses	2,694	1,294	107	129
Tax exempt income	(346)	(186)	(256)	(114)
Effect of deductible temporary differences not recognised	102	50	-	-
Other items	118	262	413	-
	34,789	31,952	44,918	25,676
(Over)/ Under provision in prior years	(793)	402	-	-
Tax expense	33,996	32,354	44,918	25,676

With effect from year of assessment 2007, the corporate tax rate is at 27%. The Malaysian Budget 2007 also announced the reduction of corporate tax rate to 26% in 2008 and to 25% with effect from year of assessment 2009 respectively. Consequently, deferred tax assets and liabilities are measured using these tax rates.

NOTES TO THE FINANCIAL STATEMENTS

24. EARNINGS PER ORDINARY SHARE - GROUP**Basic earnings per share**

The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders of RM87,770,000 (2006 - RM78,128,000) and the weighted average number of ordinary shares outstanding during the year of 137,671,800 (2006 - 137,935,400).

Weighted average number of ordinary shares

	2007 '000	2006 '000
Issued ordinary shares at beginning of the year	138,723	138,723
Effect of share buy-back	(1,051)	(788)
Weighted average number of ordinary shares	137,672	137,935

25. DIVIDENDS

Dividends recognised in the current year by the Company are:

	Sen per share (net of tax)	Total amount RM'000	Date of payment
2007			
Special 2006 ordinary	18.25	25,173	13 February 2007
Final 2006 ordinary	40.15	55,381	13 February 2007
Interim 2007 ordinary	21.90	30,163	25 July 2007
Total amount		110,717	
2006			
Special 2005 ordinary	18.00	24,855	20 February 2006
Final 2005 ordinary	18.00	24,855	20 February 2006
Interim 2006 ordinary	18.00	24,855	11 August 2006
Total amount		74,565	

After the balance sheet date, the following dividends were proposed by the Directors. These dividends will be recognised in subsequent financial reports upon approval by the shareholders.

	Group	
	Sen per share (net of tax)	Total amount RM'000
Special ordinary	18.50	25,469
Final ordinary	40.70	56,033
Total amount		81,502

NOTES TO THE FINANCIAL STATEMENTS

26. NET CLAIMS INCURRED

Group		Fire RM'000	Motor RM'000	Marine, Aviation & Transit RM'000	Miscellaneous RM'000	Total RM'000
2007						
Gross claims paid less salvage		89,149	71,579	5,319	53,154	219,201
Reinsurance recoveries		(65,265)	(8,936)	(1,926)	(19,543)	(95,670)
Net claims paid	(a)	23,884	62,643	3,393	33,611	123,531
Net outstanding claims:						
At 31 December	(b)	20,048	110,083	5,235	70,088	205,454
At 1 January	(c)	18,419	89,060	3,213	60,170	170,862
Net claims incurred	(a+b-c)	25,513	83,666	5,415	43,529	158,123
2006						
Gross claims paid less salvage		21,775	64,350	5,469	66,276	157,870
Reinsurance recoveries		(9,716)	(10,644)	(2,362)	(34,075)	(56,797)
Net claims paid	(a)	12,059	53,706	3,107	32,201	101,073
Net outstanding claims:						
At 31 December	(b)	18,419	89,060	3,213	60,170	170,862
At 1 January	(c)	11,578	83,644	3,003	51,243	149,468
Exchange difference taken up in foreign exchange reserve	(d)	7	67	2	241	317
Net claims incurred	(a+b-c-d)	18,893	59,055	3,315	40,887	122,150

27. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. The primary format, geographical segments by location of customer, is based on the Group's management and internal reporting structure. Inter-segment pricing is determined based on negotiated terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

NOTES TO THE FINANCIAL STATEMENTS

27. SEGMENT INFORMATION (CONT'D)**Geographical segments**

The general insurance business operates in two principal geographical areas, Malaysia and Singapore. The investment holding and financing of leases business segments only operates in Malaysia.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Business segments

The Group comprises the following main business segments:

General insurance	Underwriting of all classes of general insurance business
Investment holding	Investment holding company
Financing of leases	Provide financing of leases

	Malaysia		Singapore		Eliminations		Consolidated	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Geographical segments								
by location of customers								
Revenue from external customers	486,749	429,490	64,875	44,000	-	-	551,624	473,490
Total revenue	486,749	429,490	64,875	44,000	-	-	551,624	473,490
Segment result	144,342	87,448	842	(473)	(50,965)	-	94,219	86,975
Investment income							28,218	24,052
Management expenses							(679)	(545)
Share of profit after tax of equity accounted associated company							8	-
Profit before taxation							121,766	110,482
Tax expense							(33,996)	(32,354)
Net profit for the year							87,770	78,128
Segment assets	756,349	706,870	104,038	76,832	(67,998)	(29,012)	792,389	754,690
Segment liabilities	347,609	310,112	103,638	77,356	(28,859)	(29,012)	422,388	358,456
Capital expenditure	1,294	2,457	51	64	-	-	1,345	2,521
Depreciation	3,365	3,408	115	324	-	-	3,480	3,732
Other non-cash expenses	33,551	28,654	25,861	5,384	-	-	59,412	34,038

27. SEGMENT INFORMATION (CONT'D)

	General insurance		Investment holding		Financing of leases		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Business segments										
Revenue from external customers	524,036	450,006	27,580	23,475	8	9	-	-	551,624	473,490
Inter-segment revenue	-	-	140,000	70,000	-	-	(140,000)	(70,000)	-	-
Total revenue	524,036	450,006	167,580	93,475	8	9	(140,000)	(70,000)	551,624	473,490
Segment assets	624,157	555,462	336,569	328,421	189	194	(168,526)	(129,387)	792,389	754,690
Capital expenditure	1,345	2,521	-	-	-	-	-	-	1,345	2,521

28. FINANCIAL INSTRUMENTS**Financial risk management objectives and policies**

Exposure to market, underwriting, credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Group and the Company's business. The Group and the Company are guided by risk management policies and guidelines which set out the overall business strategies and the general risk management philosophy. The Group and the Company have established processes to monitor the risks on an ongoing basis.

Market risk

The net asset value of the investments by the Group and the Company may fluctuate due to changes in market conditions. Market risk is managed through portfolio diversification and asset allocation.

Underwriting risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioral patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected. The Group and the Company seek to minimise underwriting risks with a balanced mix and spread of business between classes of business and by observing underwriting guidelines and limits, adequate claims provisions, and high standards applied to the security of reinsurers.

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL INSTRUMENTS (CONT'D)

Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions fail to perform as contracted.

Management monitors the exposure to credit risk on an ongoing basis.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk for the Group and the Company are represented by the carrying amount of each financial asset.

Interest rate risk

The Group and the Company's earnings are affected by changes in market interest rates due to the impact such changes have on interest income from cash and cash equivalents and investments. The management monitors the risks in the Group and the Company's investments, including careful selection of issuers and a geographical spread of investment.

Foreign currency risk

The Group and the Company is exposed to foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia, the translation of the financial statements of a subsidiary's Singapore branch to Ringgit Malaysia, the retranslation of the cost of the investment in associate at the closing rate of exchange and share of associate results are translated at average exchange rates applicable throughout the year. Exposures to foreign currency risks are monitored on an ongoing basis.

The Group and the Company do not hedge their foreign currency risk.

Liquidity risk

The Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Group and the Company's operations and to mitigate the effects of fluctuations in cash flows.

The following table shows information about the Group and the Company's exposure to interest rate risk.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier. There are no interest-bearing financial liabilities.

28. FINANCIAL INSTRUMENTS (CONT'D)**Liquidity risk (Cont'd)**

	Effective interest rate %	Total RM'000	2007			Effective interest rate %	Total RM'000	2006		
			Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000			Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
Financial assets Group										
Debt securities held to maturity:										
Malaysian Government Securities	5.16	36,844	-	32,818	4,026	6.25	39,403	11,246	28,157	-
Malaysian Government Guaranteed Loan	3.70	10,000	-	10,000	-	3.70	10,018	-	10,018	-
Singapore Government Securities	4.66	3,504	1,148	1,197	1,159	4.67	3,555	-	2,394	1,161
Debt securities, bonds and loan stocks										
- Unquoted	4.46	28,257	1,815	10,114	16,328	5.29	26,037	5,499	10,705	9,833
Corporate loan	5.00	5,500	1,000	4,500	-	5.00	6,000	500	5,000	500
Fixed deposits	3.29	456,903	456,903	-	-	3.40	460,228	460,228	-	-
Staff loans	3.14	18,965	1,758	6,310	10,897	3.17	18,927	1,787	6,184	10,956
Lease receivables	10.85	3	3	-	-	10.85	32	29	3	-
Company										
Debt securities, bonds and loan stocks										
- Unquoted	-	-	-	-	-	6.04	9,705	-	9,705	-
Fixed deposits	3.49	91,571	91,571	-	-	3.44	126,303	126,303	-	-

NOTES TO THE FINANCIAL STATEMENTS

28. FINANCIAL INSTRUMENTS (CONT'D)**Fair values***Recognised financial instruments*

The aggregate fair values of financial assets carried on the balance sheet as at 31 December are represented in the following table.

	2007 Carrying amount RM'000	2007 Fair value RM'000	2006 Carrying amount RM'000	2006 Fair value RM'000
Financial assets				
Group				
Malaysian Government Securities	36,844	36,963	39,403	39,721
Malaysian Government Guaranteed Loan	10,000	10,036	10,018	10,021
Singapore Government Securities	3,504	3,562	3,555	3,576
Unit trust	25,091	26,261	25,090	26,337
Equity securities in corporations				
- Quoted	106,937	608,184	91,579	427,485
Debentures, bonds and loan stocks	28,257	28,514	26,037	28,567
Corporate loan	5,500	5,500	6,000	6,000
Staff loans	18,965	18,965	18,927	18,927
	235,098	737,985	220,609	560,634
Company				
Equity securities in corporations				
- Quoted	126,156	420,381	64,930	262,434
Debentures, bonds and loan stocks	-	-	9,705	10,840
Unit trust	-	-	20,000	20,442
	126,156	420,381	94,635	293,716

The fair value of quoted securities is their quoted market price at the balance sheet date. For other financial instruments listed above, fair values are indicative prices at the balance sheet date. In respect of cash and cash equivalents, fixed deposits, trade and other receivables, trade and other payables and lease receivables, the carrying amounts approximate their fair value due to the relatively short-term nature of these financial instruments.

The fair value of the staff loans approximates the carrying amount as it is immaterial in the context of the financial statements.

It is not practicable within constraints of time and cost to estimate the fair value of unquoted securities in corporations. The Group's investment in unquoted securities in corporations is insignificant in the context of the financial statements.

29. SIGNIFICANT RELATED PARTY DISCLOSURES

For the purpose of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Group and the Company are:

i) Subsidiary Companies

Details of the subsidiary companies are shown in Note 5.

ii) Associated Company

Associated company in which the Group holds an interest of between 20% to 50% in the entity as disclosed in Note 6.

iii) Key Management Personnel

Key management personnel includes the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group or Company either directly or indirectly. Executive and Non-Executive Directors compensation is disclosed in Note 22.

iv) Companies in Which a Director Has Substantial Financial Interest

These are entities in which significant voting power in such entities resides with, directly or indirectly, a Director of the Company.

- (a) The significant related party transactions of the Group and the Company, other than key management personnel compensations, are as follows:

Group	Companies in which a Director has Substantial Financial Interest	
	2007 RM'000	2006 RM'000
Income earned:		
Premium income generated from assets insured with the Group	19,733	16,222
Dividend income	36,600	30,252
Fixed deposits income	5,924	4,952
	62,257	51,426
Expenditure incurred:		
Rental paid	(2,165)	(2,161)
Commission incurred for insurance business introduced	(18,066)	(15,474)
Stock broking commission paid for equity investment	(106)	(23)
Corporate advisory fees	(30)	(18)
	(20,367)	(17,676)

NOTES TO THE FINANCIAL STATEMENTS

29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

Company	Subsidiary Companies		Companies in which a Director has Substantial Financial Interest	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Income earned:				
Dividend income (Note 19)	140,000	70,000	22,794	18,613
Fixed deposits income	-	-	884	662
	140,000	70,000	23,678	19,275
Expenditure incurred:				
Stockbroking commission paid for equity investment	-	-	(102)	(4)
Corporate advisory fees	-	-	(30)	(18)
	-	-	(132)	(22)
Transactions:				
Purchase of quoted equity securities in Malaysian corporations - at market value	(62,494)	-	-	-

(b) The significant outstanding balances of the Group and the Company with its related parties are as follows:

Group	Companies in which a Director has Substantial Financial Interest	
	2007 RM'000	2006 RM'000
Balances with related parties:		
Fixed deposits	189,722	189,706
Bank balances	2,333	2,584
	192,055	192,290
Company		
Balances with related parties:		
Fixed deposits	85,071	46,989
Bank balances	63	145
	85,134	47,134