

Lonpac Insurance Bhd

(Company No. 307414-T)

(Incorporated in Malaysia)

**Financial statements for the year ended
31 December 2008 together with
Directors' and Auditors' reports**

Lonpac Insurance Bhd

(Company No. 307414-T)

(Incorporated in Malaysia)

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Lonpac Insurance Bhd

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Directors' report for the year ended 31 December 2008

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2008.

Principal activity

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

Results

	RM'000
Profit for the year	98,245
	=====

Reserves and provisions

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

Dividends

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

- i) a first interim dividend of 40.00 sen per ordinary share less tax at 26% totaling RM29,600,000 (29.60 sen net per ordinary share) in respect of the year ended 31 December 2008 on 20 June 2008;
- ii) a second interim dividend of 34.00 sen per ordinary share less tax at 26% totaling RM25,160,000 (25.16 sen net per ordinary share) and tax exempt dividend of 4.44 sen per ordinary share totaling RM4,440,000 in respect of the year ended 31 December 2008 on 5 November 2008; and
- iii) a third interim tax exempt dividend of 12.50 sen per ordinary share totaling RM12,500,000 and single tier dividend of 15.62 sen per ordinary share totaling RM15,620,000 in respect of the year ended 31 December 2008 on 17 December 2008.

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

Provision for outstanding claims

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

Bad and doubtful debts

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

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

Current assets

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

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

Valuation methods

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

Contingent and other liabilities

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

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

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

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

Change of circumstances

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

Items of an unusual nature

Other than the gain on disposal of investments of approximately RM24.2 million as disclosed in Note 16 to the financial statements, the results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

Share capital

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

Corporate governance

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

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Audit, Nominating, Remuneration and Risk Management Committees

i. Membership and Meetings of the Committees

The composition of the respective Committees and the meetings held during the financial year ended 31 December 2008 are as follows:

<u>Director</u>	Audit	Nominating	Remuneration	Risk Management
	←	(Attendance/Number of Meetings)		→
Tan Sri Dato' Sri Dr. Teh Hong Piow (<i>Non-Independent Non-Executive Director</i>)	-	Member (5/5)	Member (3/3)	-
Tan Sri Dato' Thong Yaw Hong (<i>Independent Non-Executive Director</i>) #	Chairman (9/9)	Chairman (4/4)	Chairman (2/2)	Chairman (4/4)
Dato' Haji Abdul Aziz Bin Omar (<i>Independent Non-Executive Director</i>)	Co-Chairman (10/10)	Member (5/5)	Member (3/3)	Member (4/4)
Dato' Yeoh Chin Kee (<i>Independent Non-Executive Director</i>)	Member (10/10)	Member (5/5)	Member (3/3)	Member (4/4)
Tee Choon Yeow @ (<i>Non-Independent Non-Executive Director</i>)	-	Member (5/5)	-	-

From his appointment date on 18 January 2008.

@ Tee Choon Yeow retires from his position as Managing Director/ Chief Executive Officer on 9 April 2008 and was redesignated as a Non-Executive Director from that date.

ii. Responsibilities of the Committees

The duties and responsibilities of the Committees are as follows:

Audit Committee

- (i) To review and report the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its works.
- (ii) To review the results of the Group's internal audit procedures and the adequacy of actions taken by the management based on the reports.
- (iii) To review with the external auditors the audit plan, scope of the audit and audit findings of the Company.
- (iv) To review the annual audited financial statements of the Company and thereafter submit them to the Board for approval.
- (v) To review the adequacy and effectiveness of risk management and internal control systems instituted within the Company.
- (vi) To review any related party transactions that may arise within the Company.
- (vii) To perform any other functions as may be agreed by the Audit Committee and the Board.

Nominating Committee

- (i) To establish the minimum requirements for the Board of Directors and the Chief Executive Officer to perform their responsibilities effectively.

To oversee the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required, through annual reviews.
- (ii) To assess and recommend the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the position of Chief Executive Officer. This would include assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval is submitted to Bank Negara Malaysia.

Nominating Committee

- (iii) To establish a mechanism for formal assessment on the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer.
- (iv) To recommend to the Board on removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.
- (v) To ensure that all Directors undergo appropriate induction programmes and receive continuous training.
- (vi) To oversee appointment, management succession planning and performance evaluation of key senior officers and recommending to the Board the removal of key senior officers if they were ineffective, errant or negligent in discharging their responsibilities.

Remuneration Committee

- (i) To recommend a framework of remuneration for Directors, Chief Executive Officer and key senior officers.
- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers.

Risk Management Committee

- (i) To review and recommend risk management strategies, policies and risk tolerance for the Board of Directors' approval.
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.
- (iii) To ensure adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.
- (iv) To review the management's periodic reports on the risk exposure, risk portfolio composition and risk management activities.

Risk Management Committee (continued)

- (v) To review and assess the risk capital profiles to ensure adequacy of the capital available in the insurance and shareholder's equity to support the total capital required as specified in the Risk Based Capital Framework for Insurers issued by Bank Negara Malaysia.
- (vi) To ensure that the investment of insurance funds is in accordance with the approved investment and risk management policy of the Board.
- (vii) To review the outsourcing risk management programme and policies for the Board's approval.
- (viii) To review the management's evaluation on the materiality of all existing and prospective outsourcing, based on the framework approved by the Board.
- (ix) To ensure that the approved outsourcing policies and procedures are implemented.
- (x) To review the management's periodic review on the outsourcing policies and procedures implemented to ensure their continued effectiveness in managing outsourcing risks.
- (xi) Being communicated by the management on the information pertaining to material outsourcing risks in a timely manner.
- (xii) To perform any other functions in relation to risk management as may be agreed by the Risk Management Committee and the Board of Directors.

iii. Assessment by the Nominating Committee

Assessed and reviewed the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer. The Committee would ensure that the fiduciary duties and responsibilities of the Directors, Chief Executive Officer and key senior officers are not compromised.

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iv. Risk Management Framework

The formalisation of the risk management framework was enhanced by the following initiatives:

- A Risk Management Committee (“RMC”) was established to drive the risk management processes in identifying principal business risks and ensure the implementation of appropriate systems to manage these risks. The RMC is supported by the Working Risk Management Committee (“WRMC”).
- The WRMC, headed by the Chief Executive Officer was established with the responsibility to identify and communicate to the RMC on critical risks (present and potential) in terms of likelihood exposures and impact on the Company’s business and the management action plans to manage these risks on a continuing basis.
- A Working Risk Management Committee - Singapore Branch (“WRMCS”) was also established with the responsibility to identify and communicate to the WRMC on critical risks (present and potential) in terms of likelihood exposures and impact on the business of Lonpac’s Singapore branch and the management action plans to manage these risks on a continuing basis. The WRMCS reports to the WRMC at Head Office.
- The consolidated risk profile of the Company and the risk management manual are in place.

Options granted over unissued shares

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

Directors of the Company

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

Tan Sri Dato’ Sri Dr. Teh Hong Piow
Tan Sri Dato’ Thong Yaw Hong (appointed on 18 January 2008)
Dato’ Yeoh Chin Kee
Dato’ Haji Abdul Aziz Bin Omar
Tee Choon Yeow
Tan Kok Guan
Quah Poh Keat (appointed on 2 January 2009)

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Directors' interests

As the Company is a wholly-owned subsidiary of another corporation, the interests in the shares of the holding company of all the Directors, who are also Directors of the holding company, are shown in the Directors' report of the holding company.

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 18 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 24 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.

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:

Signed

.....
Tan Sri Dato' Thong Yaw Hong

Signed

.....
Tan Kok Guan

Kuala Lumpur,

Date: 8 January 2009

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Balance sheet at 31 December 2008

	Note	2008 RM'000	2007 RM'000
Assets			
Property and equipment	3	6,435	5,755
Investment properties	4	10,947	9,990
Investments	5	587,610	515,702
Loans (secured)	6	20,295	18,965
Trade and other receivables	7	68,816	67,874
Cash and cash equivalents	8	12,510	5,872
		<hr/>	<hr/>
Total general business and shareholder's fund assets		706,613	624,158
		<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Provision for outstanding claims	9	242,654	205,454
Trade and other payables	10	47,066	32,310
Taxation		14,184	14,194
		<hr/>	<hr/>
Total general business and shareholder's fund liabilities		303,904	251,958
		<hr/>	<hr/>
Unearned premium reserves	11	188,258	169,792
		<hr/>	<hr/>
Shareholder's fund			
Share capital	12	100,000	100,000
Reserves		114,451	102,408
		<hr/>	<hr/>
Total shareholder's fund		214,451	202,408
		<hr/>	<hr/>
Total liabilities and shareholder's fund		706,613	624,158
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 16 to 47 are an integral part of these financial statements.

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Income statement for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
Operating Revenue	14	603,812	523,297
		=====	=====
Shareholder's fund:			
Investment income	15	245	630
		-----	-----
		245	630
Transfer from general insurance revenue account		132,267	145,184
		-----	-----
Profit before tax		132,512	145,814
Tax expense	19	(34,267)	(38,741)
		-----	-----
Profit for the year		98,245	107,073
		=====	=====
Earnings per ordinary share (sen)	20	98	107
		=====	=====

The notes on pages 16 to 47 are an integral part of these financial statements.

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General insurance revenue account for the year ended 31 December 2008

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Gross premium		190,435	155,832	181,234	169,412	21,175	16,841	181,600	152,204	574,444	494,289
Less: Reinsurance		(74,686)	(63,932)	(22,529)	(14,907)	(9,460)	(7,160)	(91,448)	(73,067)	(198,123)	(159,066)
Net premium		115,749	91,900	158,705	154,505	11,715	9,681	90,152	79,137	376,321	335,223
Movement in unearned premium reserves	11	(13,915)	(3,691)	547	(17,959)	(798)	118	(3,109)	(4,600)	(17,275)	(26,132)
Earned premium		101,834	88,209	159,252	136,546	10,917	9,799	87,043	74,537	359,046	309,091
Net claims incurred	21	(20,688)	(25,513)	(113,420)	(83,666)	(4,774)	(5,415)	(44,982)	(43,529)	(183,864)	(158,123)
Net commission		(12,543)	(9,757)	(15,466)	(16,204)	(853)	(1,094)	(3,978)	(3,360)	(32,840)	(30,415)
		(33,231)	(35,270)	(128,886)	(99,870)	(5,627)	(6,509)	(48,960)	(46,889)	(216,704)	(188,538)
Underwriting surplus before management expenses		68,603	52,939	30,366	36,676	5,290	3,290	38,083	27,648	142,342	120,553
Management expenses	17									(67,340)	(61,322)
Underwriting surplus										75,002	59,231
Investment income	15									29,123	28,378
Other operating income - net	16									28,142	57,575
Transfer to income statement										132,267	145,184

The notes on pages 16 to 47 are an integral part of these financial statements.

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Statement of changes in equity for the year ended 31 December 2008

	Note	<i>Non-Distributable</i>		<i>Distributable</i>		
		Share capital RM'000	Property revaluation reserve RM'000	Foreign exchange reserve RM'000	Retained profits RM'000	Total RM'000
At 1 January 2007		100,000	2,903	40	94,580	197,523
Foreign exchange translation differences		-	-	12	-	12
Net gain not recognised in the income statement		-	-	12	-	12
Profit for the year		-	-	-	107,073	107,073
Dividends	13	-	-	-	(102,200)	(102,200)
At 31 December 2007/ 1 January 2008		100,000	2,903	52	99,453	202,408
Foreign exchange translation differences		-	-	1,118	-	1,118
Net gain not recognised in the income statement		-	-	1,118	-	1,118
Profit for the year		-	-	-	98,245	98,245
Dividends	13	-	-	-	(87,320)	(87,320)
At 31 December 2008		100,000	2,903	1,170	110,378	214,451

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Note 12

The foreign exchange reserve is in respect of exchange differences arising from the translation of the Singapore branch's financial statements.

The notes on pages 16 to 47 are an integral part of these financial statements.

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Cash flow statement for the year ended 31 December 2008

	2008 RM'000	2007 RM'000
Cash flows from operating activities		
Profit before tax	132,512	145,814
Adjustments for:		
Depreciation	3,199	3,480
Gain on disposal of property and equipment	(76)	(179)
Gain on disposal of investments	(24,157)	(52,669)
Movement in unearned premium reserves	17,275	26,132
Interest paid on reinsurers' deposits	2	2
Investment income (Note 15)	(29,368)	(29,008)
Provision for outstanding claims	35,270	34,592
(Writeback)/Allowance for diminution in value of investments	(579)	132
Fair value movement of investment properties	(600)	(1,444)
	<hr/>	<hr/>
Profit from operations before changes in operating assets and liabilities	133,478	126,852
 Changes in operating assets and liabilities		
Decrease/(Increase) in due premiums including agents/brokers and co-insurers balances and amount due from reinsurers and cedants	569	(18,067)
Increase in other receivables, deposits and prepayments and income due and accrued	(531)	(85)
Increase in staff loans	(1,330)	(38)
Increase/(Decrease) in amount due to reinsurers, cedants, agents/brokers, co-insurers and insureds	12,214	(4,749)
Increase in amount due from Holding Company	(980)	-
Increase in other payables and accrued expenses	2,542	1,425
Increase in fixed deposits	(68,056)	(35,332)
Repayment of corporate loan	1,000	500
Purchase of investments	(34,436)	(54,401)
Proceeds from maturity / disposal of investments	56,645	89,291
Interest paid on reinsurers' deposits	(2)	(2)
Dividend income received	11,867	12,886
Interest income received	17,540	16,476
Rental received	396	319
	<hr/>	<hr/>
Cash generated from operating activities	130,916	135,075
Tax paid	(34,277)	(32,331)
	<hr/>	<hr/>
Net cash generated from operating activities	96,639	102,744
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Cash flow statements for the year ended 31 December 2008

(continued)

	2008 RM'000	2007 RM'000
Cash flows from investing activities		
Proceeds from disposal of property and equipment	80	286
Purchase of property and equipment	(3,879)	(1,345)
	<hr/>	<hr/>
Net cash used in investing activities	(3,799)	(1,059)
	-----	-----
Cash flow from financing activity		
Dividends paid to holding company	(87,320)	(102,200)
	<hr/>	<hr/>
Net cash used in financing activity	(87,320)	(102,200)
	-----	-----
Net increase/(decrease) in cash and cash equivalents	5,520	(515)
Cash and cash equivalents at beginning of year	5,872	6,375
Effect of movements in exchange rates	1,118	12
	<hr/>	<hr/>
Cash and cash equivalents at end of year	12,510	5,872
	=====	=====

The notes on pages 16 to 47 are an integral part of these financial statements.

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Notes to the financial statements

Lonpac Insurance Bhd is a public limited liability company, incorporated and domiciled in Malaysia. The addresses of its registered office and principal place of business are as follows:

Registered office

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

Principal place of business

LG, 6th, 7th, 21st - 26th Floor
Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur

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

The Company is a wholly-owned subsidiary of LPI Capital Bhd, a company incorporated in Malaysia and produces consolidated financial statements for public use that comply with Financial Reporting Standards.

The financial statements were approved by the Board of Directors on 8 January 2009.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards (FRS), accounting principles generally accepted in Malaysia, and the Companies Act, 1965, the Insurance Act and Regulations, 1996 and Guidelines/Circular issued by Bank Negara Malaysia.

The following accounting standards (including its consequential amendments) and interpretations have been issued by the Malaysian Accounting Standards Board (MASB):

FRSs/ Interpretations	Effective date
FRS 4, <i>Insurance Contracts</i>	1 January 2010
FRS 7, <i>Financial Instruments: Disclosures</i>	1 January 2010
FRS 8, <i>Operating Segment</i>	1 July 2009
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	1 January 2010

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

FRSs/ Interpretations	Effective date
IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 January 2010
IC Interpretation 10, <i>Interim Financial Reporting and Impairment</i>	1 January 2010

The Company plans to adopt the abovementioned FRSs/Interpretations from the annual period beginning on 1 January 2010 except for FRS 8 and IC Interpretation 10 which are not applicable to the Company.

The impact of applying FRS 4, FRS 7 and FRS 139 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective FRSs. The initial application of the other standards (and its consequential amendments) and interpretations above is not expected to have any material impact on the financial statements of the Company.

Risk-Based Capital Framework for Insurers

Bank Negara Malaysia has issued detailed guidelines under the Risk-Based Capital Framework for Insurers (“the Framework”) which is effective for annual period beginning on or after 1 January 2009. The Company will adopt the accounting policies on investments, receivables, unexpired risks and general insurance liabilities as specified in the Framework for the annual period beginning on 1 January 2009. Pursuant to the Framework, the impact of applying these accounting policies will be disclosed in financial statements for the year ending 31 December 2009.

(b) Basis of measurement

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

1. Basis of preparation (continued)

(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(c) - Valuation of investment properties

Note 2(i) - 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, unless otherwise stated.

(a) Currency conversion and translation

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which 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 the Singapore branch, which operates in a 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 income statement as part of the gain or loss on sale.

2. Significant accounting policies (continued)

(b) Property and equipment

(i) *Recognition and measurement*

Property and equipment except for capital work-in-progress are stated at cost less any accumulated depreciation and any accumulated impairment losses. Capital work-in-progress is stated at cost less any impairment losses.

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 property and equipment are recognised within “other income/(expenses) - net” in the income statement.

(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 Company and its cost can be measured reliably. The carrying amount of the replaced part 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 Company 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 (continued)

(b) Property and equipment (continued)

(iii) Depreciation (continued)

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

• Office equipment	4 years
• Furniture and fittings	4 years
• Renovation	5 years
• Computers	4 years
• Motor vehicles	5 years

Depreciable amount is determined after deducting the residual value.

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

(c) 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 an 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.

2. Significant accounting policies (continued)

(c) Investment properties (continued)

(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 Company's investment property portfolio annually.

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.

(d) Investments

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

- Malaysian and Singapore Government Securities, Government Investment Issues, 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, allowance 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. An allowance 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.

2. Significant accounting policies (continued)

(e) Impairment of assets

The carrying amount of assets, except for investment properties 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 grouped 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").

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.

2. Significant accounting policies (continued)

(f) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, 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.

Receivables are not held for the purpose of trading.

(g) Cash and cash equivalents

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

(h) 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.

(i) 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.

2. Significant accounting policies (continued)

(i) General insurance underwriting results (continued)

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 year.

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 business and overseas inward business.

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

Non annual policies

Premiums 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.

2. Significant accounting policies (continued)

(i) General insurance underwriting results (continued)

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.

(j) Tax expense

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.

2. Significant accounting policies (continued)

(k) 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.

(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.

(l) 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 Company 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 Company's contributions to statutory pension funds are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

Company No. 307414-T

3. Property and equipment

<i>Cost</i>	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
At 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 2007/1 January 2008	796	3,776	4,374	15,230	3,162	247	27,585
Additions	59	382	1,072	1,016	318	1,032	3,879
Transfer to property and equipment	-	314	267	318	-	(899)	-
Disposals	-	-	-	(8)	(244)	-	(252)
Written off	(52)	(297)	(442)	(473)	(14)	-	(1,278)
Effect of movements in exchange rates	5	15	24	38	11	-	93
At 31 December 2008	808	4,190	5,295	16,121	3,233	380	30,027
<i>Accumulated depreciation</i>							
At 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 2007/1 January 2008	738	3,109	3,184	12,384	2,415	-	21,830
Charge for the year	46	439	666	1,692	356	-	3,199
Disposals	-	-	-	(4)	(244)	-	(248)
Written off	(52)	(297)	(442)	(473)	(14)	-	(1,278)
Effect of movements in exchange rates	4	13	24	37	11	-	89
At 31 December 2008	736	3,264	3,432	13,636	2,524	-	23,592

Company No. 307414-T

3. Property and equipment (continued)

	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
<i>Carrying amount</i>							
At 1 January 2007	136	981	1,498	4,062	1,149	171	7,997
At 31 December 2007/1 January 2008	58	667	1,190	2,846	747	247	5,755
At 31 December 2008	72	926	1,863	2,485	709	380	6,435

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

	2008 RM'000	2007 RM'000
At cost:		
Office equipment	637	509
Furniture and fittings	2,040	2,110
Renovation	1,767	1,840
Computers	9,659	8,131
Motor vehicles	1,453	1,556
	=====	=====

4. Investment properties

	2008 RM'000	2007 RM'000
At 1 January	9,990	8,546
Change in fair value - income statement	600	1,444
Effect of movement in exchange rates	357	-
	<u> </u>	<u> </u>
At 31 December	10,947	9,990
	<u> </u>	<u> </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:

	2008 RM'000	2007 RM'000
Rental income	396	319
Direct operating expenses	(3)	(3)
	<u> </u>	<u> </u>

5. Investments

	2008		2007	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Malaysian Government Securities	49,771		38,238	
Amortisation of premiums	(546)		(1,394)	
	<u> </u>		<u> </u>	
	49,225		36,844	
	-----		-----	
Government Investment Issues	2,879		-	
Amortisation of premiums	(1)		-	
	<u> </u>		<u> </u>	
	2,878		-	
	-----		-----	
Malaysian Government Guaranteed Loan	10,324		10,000	
Amortisation of premiums	(80)		-	
	<u> </u>		<u> </u>	
	10,244		10,000	
	-----		-----	
Singapore Government Securities	2,531		3,725	
Amortisation of premiums	(99)		(221)	
	<u> </u>		<u> </u>	
	2,432		3,504	
	-----		-----	

5. Investments (continued)

	2008		2007	
	Cost RM'000	Market Value RM'000	Cost RM'000	Market Value RM'000
Quoted:				
Unit trust				
In Malaysia	25,622	25,774	24,987	25,918
Outside Malaysia	109	210	104	343
	<u>25,731</u>	<u>25,984</u>	<u>25,091</u>	<u>26,261</u>
Equity securities in corporations				
In Malaysia	29,816	95,387	39,191	156,768
Outside Malaysia	2,628	1,588	2,013	2,147
	<u>32,444</u>	<u>96,975</u>	<u>41,204</u>	<u>158,915</u>
Unquoted:				
Equity securities in corporations				
In Malaysia	235		235	
Outside Malaysia	59		56	
	<u>294</u>		<u>291</u>	
Allowance for diminution in value	(59)		(56)	
	<u>235</u>		<u>235</u>	
Debentures, bonds and loan stocks	24,677		28,726	
Allowance for diminution in value	-		(455)	
Amortisation of premiums	(35)		(14)	
	<u>24,642</u>		<u>28,257</u>	
Corporate loan	4,500		5,500	
Fixed deposits with:				
- Licensed banks in Malaysia	361,745		300,134	
- Banks outside Malaysia	73,534		64,933	
	<u>435,279</u>		<u>365,067</u>	
Total investments	<u>587,610</u>		<u>515,702</u>	

5. Investments (continued)

Included in the Company's investments in shares of corporations quoted in Malaysia are investments in Public Bank Berhad shares with a carrying value of RM25,655,000 (2007 - RM35,030,000).

Included in the fixed deposits with banks outside Malaysia is an amount of RM1,185,000 (2007 - RM1,135,000) lodged with the Monetary Authority of Singapore as a statutory deposit under Section 14 of the Insurance Act, Chapter 142.

6. Loans (secured)

	2008 RM'000	2007 RM'000
Staff loans:		
Receivable within twelve months	2,193	1,758
Receivable after twelve months	18,102	17,207
	<u>20,295</u>	<u>18,965</u>
	=====	=====

7. Trade and other receivables

	Note	2008 RM'000	2007 RM'000
Trade receivables:			
Due premiums including agents/brokers and co-insurers balances		47,900	44,071
Due from reinsurers and cedants		13,728	18,285
Less: Allowance for doubtful debts	7.1	(893)	(1,052)
		<u>60,735</u>	<u>61,304</u>
		-----	-----
Other receivables:			
Other receivables, deposits and prepayments		3,957	3,317
Income due and accrued		3,144	3,253
Amount due from Holding Company	7.2	980	-
		<u>8,081</u>	<u>6,570</u>
		-----	-----
		68,816	67,874
		=====	=====

7.1 During the year, doubtful debts of Nil (2007 - RM663,000) was written off against the allowance for doubtful debts.

7.2 The amount due from Holding Company is non trade in nature, interest free, unsecured and repayable on demand.

8. Cash and cash equivalents

	2008 RM'000	2007 RM'000
Cash and bank balances	12,510	5,872
	=====	=====

9. Provision for outstanding claims

	2008 RM'000	2007 RM'000
Provision for outstanding claims	442,557	399,784
Less: Recoverable from reinsurers	(199,903)	(194,330)
	-----	-----
Net outstanding claims	242,654	205,454
	=====	=====

10. Trade and other payables

	2008 RM'000	2007 RM'000
Trade payables:		
Due to reinsurers and cedants	27,603	18,115
Due to agents/brokers, co-insurers and insureds	6,819	4,093
	-----	-----
	34,422	22,208
Other payables:		
Other payables and accrued expenses	12,644	10,102
	-----	-----
	47,066	32,310
	=====	=====

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

	2008 RM'000	2007 RM'000
Collateral deposits received from policyholders	74,077	69,811
Less: Fixed deposits - cash collateral	(73,518)	(69,535)
	-----	-----
	559	276
	=====	=====

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

11. Unearned premium reserves

2008	Fire	Motor	Marine, Aviation & Transit	Miscellaneous	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	42,751	71,277	3,310	52,454	169,792
Increase / (Decrease)	13,915	(547)	798	3,109	17,275
Effect of movements in exchange rates	25	589	12	565	1,191
At 31 December	56,691	71,319	4,120	56,128	188,258
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

12. Share capital

Ordinary shares of RM1.00 each	2008		2007	
	Amount RM'000	Number of shares '000	Amount RM'000	Number of shares '000
Authorised	100,000	100,000	100,000	100,000
Issued and fully-paid	100,000	100,000	100,000	100,000

13. Dividends

Dividends recognised in the current year by the Company are:

2008	Sen per share (net of tax)	Total amount RM'000	Date of payment
First interim 2008 ordinary	29.60	29,600	20 June 2008
Second interim 2008 ordinary	29.60	29,600	5 November 2008
Third interim 2008 ordinary	28.12	28,120	17 December 2008
		87,320	
		87,320	
2007			
First interim 2007 ordinary	21.90	21,900	20 June 2007
Second interim 2007 ordinary	51.10	51,100	14 December 2007
Third interim 2007 ordinary	29.20	29,200	24 December 2007
		102,200	
		102,200	

14. Revenue

	Shareholder's fund RM'000	General business RM'000	Total RM'000
2008			
Gross premium	-	574,444	574,444
Investment income (Note 15)	245	29,123	29,368
	245	603,567	603,812
	245	603,567	603,812
2007			
Gross premium	-	494,289	494,289
Investment income (Note 15)	630	28,378	29,008
	630	522,667	523,297
	630	522,667	523,297

15. Investment income

	Shareholder's fund RM'000	General business RM'000	Total RM'000
2008			
Gross dividends			
- unit trust	-	1,025	1,025
- quoted shares in Malaysia	-	10,727	10,727
- quoted shares outside Malaysia	-	33	33
- unquoted shares in Malaysia	-	82	82
Interest income			
- Corporate loan	-	297	297
- Malaysian Government Securities	-	2,119	2,119
- Government Investment Issues	-	7	7
- Malaysian Government Guaranteed Loan	-	466	466
- Singapore Government Securities	-	132	132
- Debentures/Bonds/Loan Stocks (unquoted)	-	1,267	1,267
- Fixed deposits	245	13,007	13,252
Rental of properties received from third parties	-	396	396
Amortisation of premium, net of accretion of discounts	-	(435)	(435)
	<hr/>	<hr/>	<hr/>
	245	29,123	29,368
	====	=====	=====
2007			
Gross dividends			
- unit trust	-	257	257
- quoted shares in Malaysia	-	12,339	12,339
- quoted shares outside Malaysia	-	219	219
- unquoted shares in Malaysia	-	71	71
Interest income			
- Corporate loan	-	290	290
- Malaysian Government Securities	-	2,282	2,282
- Malaysian Government Guaranteed Loan	-	420	420
- Singapore Government Securities	-	160	160
- Debentures/Bonds/Loan Stocks (unquoted)	-	754	754
- Fixed deposits	630	11,940	12,570
Rental of properties received from third parties	-	319	319
Amortisation of premium, net of accretion of discounts	-	(673)	(673)
	<hr/>	<hr/>	<hr/>
	630	28,378	29,008
	====	=====	=====

16. Other operating income/(expenses) - net

	2008	2007
	RM'000	RM'000
Gain on disposal of investments	24,157	52,669
Gain on disposal of property and equipment	76	179
Interest on staff car loans	155	183
Interest on staff housing loans	396	447
Interest received on inward treaties	-	1
Writeback/(Allowance) for diminution in value of investments	579	(132)
Sundry income	2,179	2,784
Fair value movement of investment properties	600	1,444
	<hr/>	<hr/>
	28,142	57,575
	=====	=====

17. Management expenses

	2008	2007
	RM'000	RM'000
Personnel expenses (including key management personnel)		
- Directors' fee	560	492
- Wages, salaries and others	31,230	27,897
- Contributions to Employees' Provident Fund	3,436	2,910
	<hr/>	<hr/>
	35,226	31,299
Auditors' remuneration		
- Auditors of the Company	175	145
- An affiliate of auditors of the Company	172	136
Bad and doubtful debts (written back) / allowance	(163)	152
Depreciation	3,199	3,480
Rental expense on office premises	4,577	3,326
Interest paid on reinsurers' deposits	2	2
IGSF levies	841	721
Other expenses	23,311	22,061
	<hr/>	<hr/>
Total management expenses	67,340	61,322
	=====	=====

18. Key management personnel compensation

	2008	2007
	RM'000	RM'000
Executive Directors		
- Fees	110	100
- Salaries and contribution to Employees' Provident Fund	892	1,058
- Bonuses	224	584
- Benefits-in-kind	72	72
	<u>1,298</u>	<u>1,814</u>
	-----	-----
Non-Executive Directors		
- Fees	450	392
- Benefits-in-kind	23	22
- Other remuneration	71	72
	<u>544</u>	<u>486</u>
	-----	-----
Total Directors' Remuneration	<u>1,842</u>	<u>2,300</u>
	=====	=====
Total Directors' Remuneration (excluding benefits-in-kind)	<u>1,747</u>	<u>2,206</u>
	=====	=====

19. Tax expense

	2008	2007
	RM'000	RM'000
Current tax expense		
Malaysian - current	34,002	39,501
- prior years	39	(401)
Overseas - current	226	33
	<u>34,267</u>	<u>39,133</u>
Total current tax	34,267	39,133
Deferred tax expense		
Malaysian - prior year	-	(392)
	<u>34,267</u>	<u>38,741</u>
	=====	=====

19. Tax expense (continued)

	2008	2007
	RM'000	RM'000
Reconciliation of tax expense		
Profit for the year	98,245	107,073
Total taxation	34,267	38,741
	<hr/>	<hr/>
Profit excluding tax	132,512	145,814
	=====	=====
Income tax using Malaysian tax rates of 26% (2007: 27%)	34,453	39,370
Effect of different tax rates for offshore business and business outside Malaysia	(1,111)	(656)
Non-deductible expenses	626	1,065
Tax exempt income	(283)	(90)
Effect of deductible temporary differences not recognised	-	104
Recognition of tax benefits previously not recognised	(314)	-
Other items	857	(259)
	<hr/>	<hr/>
Under/(Over) provision in prior years	34,228 39	39,534 (793)
	<hr/>	<hr/>
Tax expense	34,267	38,741
	=====	=====

The corporate tax rates are 26% for year of assessment 2008 and 25% for the subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.

During the financial year, the Company has elected for the Single Tier System pursuant to Section 50 of the Finance Act 2007. As such, the Company may distribute single tier dividend to its shareholders out of its entire retained earnings.

20. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders of RM98,245,000 (2007 - RM107,073,000) and the weighted average number of ordinary shares outstanding during the year of 100,000,000 (2007 - 100,000,000).

21. Net claims incurred

2008		Marine, Aviation &				Total
		Fire	Motor	Transit	Miscellaneous	
		RM'000	RM'000	RM'000	RM'000	RM'000
	Gross claims paid less salvage	81,177	95,526	6,013	72,213	254,929
	Reinsurance recoveries	(62,428)	(11,145)	(2,626)	(30,136)	(106,335)
	Net claims paid (a)	18,749	84,381	3,387	42,077	148,594
	Net outstanding claims:					
	At 31 December (b)	22,003	139,803	6,638	74,210	242,654
	At 1 January (c)	20,048	110,083	5,235	70,088	205,454
	Effect of movements in exchange rates (d)	16	681	16	1,217	1,930
	Net claims incurred (a+b-c-d)	20,688	113,420	4,774	44,982	183,864
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

22. Segment information on cash flow

	General business RM'000	Shareholder's fund RM'000	Elimination RM'000	Total RM'000
2008				
Cash flow generated from/(used in):				
Operating activities	96,639	87,320	(87,320)	96,639
Investing activities	(3,799)	-	-	(3,799)
Financing activities	(87,320)	(87,320)	87,320	(87,320)
	<u>5,520</u>	<u>-</u>	<u>-</u>	<u>5,520</u>
	=====			=====
Net increase in cash and cash equivalents	5,520	-	-	5,520
Cash and cash equivalents:				
At 1 January as previously reported	5,814	58	-	5,872
Effect of movements in exchange rates	1,118	-	-	1,118
	<u>12,452</u>	<u>58</u>	<u>-</u>	<u>12,510</u>
	=====			=====
2007				
Cash flow generated from/(used in):				
Operating activities	102,744	102,200	(102,200)	102,744
Investing activities	(1,059)	-	-	(1,059)
Financing activities	(102,200)	(102,200)	102,200	(102,200)
	<u>(515)</u>	<u>-</u>	<u>-</u>	<u>(515)</u>
	=====			=====
Net decrease in cash and cash equivalents	(515)	-	-	(515)
Cash and cash equivalents:				
At 1 January as previously reported	6,317	58	-	6,375
Effect of movements in exchange rates	12	-	-	12
	<u>5,814</u>	<u>58</u>	<u>-</u>	<u>5,872</u>
	=====			=====

23. 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 Company's business. The Company is guided by risk management policies and guidelines which set out the overall business strategies and the general risk management philosophy. The Company has established processes to monitor the risks on an ongoing basis.

Market risk

The value of the investments by 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 behavioural 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 Company seeks 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.

23. Financial instruments (continued)

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 Company is represented by the carrying amount of each financial asset.

Interest rate risk

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

Foreign currency risk

The Company is exposed to foreign currency risk on transactions that are denominated in a currency other than Ringgit Malaysia and the translation of the financial statements of the Singapore branch to Ringgit Malaysia. Exposures to foreign currency risks are monitored on an ongoing basis.

The Company does not hedge its foreign currency risk.

Liquidity risk

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

Company No. 307414-T

23. Financial instruments (continued)

The following table shows information about 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.

	Effective interest rate %	2008				Effective interest rate %	2007			
		Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000		Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000
Financial assets										
Malaysian branch										
Debt securities held to maturity:										
Malaysian Government Securities	4.3	49,225	20,035	29,190	-	5.2	36,844	-	32,818	4,026
Government Investment Issue	3.6	2,878	-	2,878	-	-	-	-	-	-
Malaysian Government Guaranteed Loan	3.9	10,244	-	10,244	-	3.7	10,000	-	10,000	-
Debentures, bonds and loan stocks										
- Unquoted	5.0	21,067	1,000	5,000	15,067	5.0	21,080	-	6,000	15,080
Corporate loan	5.0	4,500	1,000	3,500	-	5.0	5,500	1,000	4,500	-
Fixed deposits	3.3	351,622	351,622	-	-	3.4	300,134	300,134	-	-
Staff loans	1.7	19,366	2,070	6,304	10,992	3.2	18,235	1,642	5,882	10,711
Singapore branch										
Debt securities held to maturity:										
Singapore Government Securities	4.2	2,432	-	1,224	1,208	4.7	3,504	1,148	1,197	1,159
Debentures, bonds and loan stocks										
- Unquoted	3.8	3,575	593	2,982	-	2.8	7,177	1,815	4,114	1,248
Fixed deposits	1.7	83,657	83,657	-	-	2.6	64,933	64,933	-	-
Staff loans	1.3	929	123	495	311	1.5	730	116	428	186

23. Financial instruments (continued)

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.

	2008 Carrying amount RM'000	2008 Fair value RM'000	2007 Carrying amount RM'000	2007 Fair value RM'000
Financial assets				
Malaysia Branch				
Malaysian Government Securities	49,225	49,685	36,844	36,963
Government Investment Issues	2,878	2,906	-	-
Malaysian Government Guaranteed Loan	10,244	10,524	10,000	10,036
Equity securities in corporations				
- Quoted	28,875	85,281	38,290	144,063
- Unquoted	235	*	235	*
Unit trust - Quoted	25,622	25,774	24,987	25,918
Debentures, bonds and loan stocks				
- Unquoted	21,067	20,838#	21,080	21,272#
Corporate loan	4,500	4,500	5,500	5,500
Staff loans	19,366	19,366	18,235	18,235
	162,012	218,874	155,171	261,987
Singapore Branch				
Singapore Government Securities	2,432	2,600	3,504	3,562
Equity securities in corporations				
- Quoted	3,569	11,694	2,914	14,852
Unit trust - Quoted	109	210	104	343
Debentures, bonds and loan stocks				
- Unquoted	3,575	3,555#	7,177	7,242#
Staff loans	929	929	730	730
	10,614	18,988	14,429	26,729
	172,626	237,862	169,600	288,716

The fair value of quoted securities and quoted unit trust are their quoted market price at the balance sheet date.

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

23. Financial instruments (continued)

In respect of cash and cash equivalents, fixed deposits, trade and other receivables, trade and other payables, the carrying amounts approximate their fair values due to the relatively short term nature of these financial instruments.

For other financial instruments listed above, fair values are indicative prices at the balance sheet date.

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

The estimated fair values of unquoted debentures, bonds and loan stocks are based on the average indicative market yields obtained from financial institutions which involve projections of market yields based on past transactions. There are elements of uncertainty in projecting the expected market yields and these uncertainties arise from changes in underlying risk and overall economic conditions. As such, the projected market yields may be different from its actual market yields in future.

24. Significant related party disclosures

For the purpose of these financial statements, parties are considered to be related to the Company if 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 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 Company are:

i) Holding Company

The Holding Company is LPI Capital Bhd, a corporation incorporated in Malaysia.

ii) Related Companies

These are entities which are under common control with the Company.

iii) Key Management Personnel

Key management personnel include 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 Company either directly or indirectly. Executive and Non-Executive Directors compensation is disclosed in Note 18.

24. Significant related party disclosures (continued)

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

	Companies in which a Director has substantial Financial Interest	
	2008 RM'000	2007 RM'000
Balances with related parties:		
Fixed deposits	88,843	104,386
Bank balances	4,498	2,249
	93,341	106,635
	93,341	106,635

Lonpac Insurance Bhd

(Company No. 307414-T)

(Incorporated in Malaysia)

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 10 to 47 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Company at 31 December 2008 and of the results of its 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:

Signed

.....
Tan Sri Dato' Thong Yaw Hong

Signed

.....
Tan Kok Guan

Kuala Lumpur,

Date: 8 January 2009

Lonpac Insurance Bhd

(Company No. 307414-T)
(Incorporated in Malaysia)

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

I, **Tan Kok Guan**, the Director primarily responsible for the financial management of Lonpac Insurance Bhd, do sincerely declare that the financial statements set out on pages 10 to 47 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 8 January 2009.

Signed

.....

Tan Kok Guan

Before me:

Signed

Commissioner for Oath

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
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Independent auditors' report to the member of Lonpac Insurance Bhd

(Company No. 307414-T)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Lonpac Insurance Bhd, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 47.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Company No. 307414-T

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2008 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Signed

KPMG

Firm Number: AF 0758
Chartered Accountants

Signed

Khaw Hock Hoe

Approval Number: 2229/04/10(J)
Chartered Accountant

Petaling Jaya, Selangor

Date: 8 January 2009