Lonpac Insurance Bhd

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

Financial statements for the year ended 31 December 2007 together with Directors' and Auditors' reports

Lonpac Insurance Bhd
(Company No. 307414-T)
(Incorporated in Malaysia)

Contents

Lonpac Insurance Bhd

(Company No. 307414-T)
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Directors' report for the year ended 31 December 2007

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

Principal Activity

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

Results

	RM'000
Net profit for the year	107,073
	=====

Dividends

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

i) a first interim dividend of 30.0 sen per ordinary share less tax at 27% totaling RM21,900,000 (21.9 sen net per ordinary share) in respect of the year ended 31 December 2007 on 20 June 2007;

ii) a second interim dividend of 70.0 sen per ordinary share less tax at 27% totaling RM51,100,000 (51.1 sen net per ordinary share) in respect of the year ended 31 December 2007 on 14 December 2007; and

iii) a third interim dividend of 40.0 sen per ordinary share less tax at 27% totaling RM29,200,000 (29.2 sen net per ordinary share) in respect of the year ended 31 December 2007 on 24 December 2007.

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

Reserves and provisions

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

Provision for outstanding claims

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

Bad and doubtful debts

Before the income statement and balance sheet of the Company were made out, the Directors took reasonable steps to ascertain that 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.

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 RM52.7 million as disclosed in Note 17 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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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 2007 are as follows:

Director	**Nominating**	**Remuneration**	**Risk Management**
	← *(Attendance/Number of Meetings)* →		
Tan Sri Dato' Sri Dr. Teh Hong Piow (*Non-Independent Non-Executive Director*)	Member (6/6)	Member (1/1)	-
Dato' Yeoh Chin Kee (*Independent Non-Executive Director*)	Chairman (6/6)	Chairman (1/1)	Chairman (5/5)
Dato' Haji Abdul Aziz bin Omar (*Independent Non-Executive Director) #*	Member (1/1)	Member (1/1)	Member (1/1)
Geh Cheng Hooi (*Independent Non-Executive Director*) ##	Member (5/5)	Member -	Member (4/4)
Lee Chin Guan (*Independent Non-Executive Director*) ###	Member (3/4)	Member -	Member (3/4)
Tee Choon Yeow (*Non-Independent Executive Director*)	Member (6/6)	-	-

\# From his appointment date on 9 October 2007
\## Up to his resignation date on 29 November 2007
\### Up to his resignation date on 9 October 2007

ii. Responsibilities of the Committees

The duties and responsibilities of the Committees are as follows:

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 re-appointment, before an application for approval is submitted to Bank Negara Malaysia.

(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.

(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 issue 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.

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 Managing Director/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 of 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 is also chaired by the Managing Director/Chief Executive Officer.

- 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

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

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

Directors' 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.

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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 19 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 25 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
……………………………………………………………
Dato' Yeoh Chin Kee

Signed
……………………………………………………………
Tee Choon Yeow

Kuala Lumpur,

Date: 14 January 2008

Lonpac Insurance Bhd

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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 12 to 50 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Company at 31 December 2007 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
....
Dato' Yeoh Chin Kee

Signed
....
Tee Choon Yeow

Kuala Lumpur,

Date: 14 January 2008

Lonpac Insurance Bhd

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

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

I, **Tee Choon Yeow**, the Director primarily responsible for the financial management of Lonpac Insurance Bhd, do sincerely declare that the financial statements set out on pages 12 to 50 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

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

Signed
………………………………
Tee Choon Yeow

Before me:

G. GANESAN
Commissioner for Oath

Report of the auditors to the member of
Lonpac Insurance Bhd
(Company No. 307414-T)
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We have audited the financial statements set out on pages 12 to 50. The preparation of the financial statements is the responsibility of the Company's Directors.

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

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

In our opinion:

(a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965, and applicable approved Financial Reporting Standards issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:

   i) the state of affairs of the Company at 31 December 2007 and of the results of its operations and cash flows for the year ended on that date; and

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

(b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company have been properly kept in accordance with the provisions of the said Act.

Signed

KPMG
Firm Number: AF 0758
Chartered Accountants

Signed

Khaw Hock Hoe
Partner
Approval Number: 2229/04/08(J)

Kuala Lumpur,

Date: 14 January 2008

Lonpac Insurance Bhd

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Balance sheet at 31 December 2007

	Note	2007 RM'000	2006 RM'000
Assets			
Property and equipment	3	5,755	7,997
Investment properties	4	9,990	8,546
Investments	5	515,702	463,896
Loans (secured)	6	18,965	18,927
Trade and other receivables	7	67,874	49,722
Cash and cash equivalents	8	5,872	6,375
Total general business and shareholder's fund assets		624,158	555,463
Liabilities			
Provision for outstanding claims	9	205,454	170,862
Trade and other payables	10	32,310	35,634
Taxation		14,194	7,392
Total general business and shareholder's fund liabilities		251,958	213,888
Unearned premium reserves	11	169,792	143,660
Shareholder's fund			
Share capital	12	100,000	100,000
Reserves		102,408	97,523
Total shareholder's fund		202,408	197,523
Deferred tax liabilities	13	-	392
Total liabilities and shareholder's fund		624,158	555,463

The notes on pages 18 to 50 are an integral part of these financial statements.

Lonpac Insurance Bhd
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Income statement for the year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000
Operating Revenue	15	523,297	449,221
Shareholder's fund:			
Investment income	16	630	568
		630	568
Transfer from general insurance revenue account		145,184	86,975
Profit before taxation		145,814	87,543
Tax expense	20	(38,741)	(25,993)
Net profit for the year		107,073	61,550
Earnings per ordinary share (sen)	21	107	62

The notes on pages 18 to 50 are an integral part of these financial statements.

Lonpac Insurance Bhd
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General insurance revenue account for the year ended 31 December 2007

	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	11	(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	22	(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	18									(61,322)	(52,940)
Underwriting surplus										59,231	59,111
Investment income	16									28,378	24,213
Other operating income - net	17									57,575	3,651
Transfer to income statement										145,184	86,975

The notes on pages 18 to 50 are an integral part of these financial statements.

Lonpac Insurance Bhd

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Statements of changes in equity for the year ended 31 December 2007

	Note		*Non-Distributable*		*Distributable*	
		Share capital RM'000	**Property revaluation reserve RM'000**	**Foreign exchange reserve RM'000**	**Retained profits RM'000**	**Total RM'000**
At 1 January 2006		100,000	-	201	82,422	182,623
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		100,000	2,903	201	83,430	186,534
Currency translation differences		-	-	(161)	-	(161)
Net losses not recognised in the income statement		-	-	(161)	-	(161)
Net profit for the year		-	-	-	61,550	61,550
Dividends	14	-	-	-	(50,400)	(50,400)
At 31 December 2006/ 1 January 2007		100,000	2,903	40	94,580	197,523
Currency translation differences		-	-	12	-	12
Net gain not recognised in the income statement		-	-	12	-	12
Net profit for the year		-	-	-	107,073	107,073
Dividends	14	-	-	-	(102,200)	(102,200)
At 31 December 2007		100,000	2,903	52	99,453	202,408
		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 18 to 50 are an integral part of these financial statements.

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Cash flow statement for the year ended 31 December 2007

	2007 RM'000	2006 RM'000
Cash flows from operating activities		
Profit before taxation	145,814	87,543
Adjustments for:		
Depreciation	3,480	3,732
Gain on disposal of property and equipment	(179)	(7)
Gain on disposal of investments	(52,669)	(765)
Movement in unearned premium reserves	26,132	13,522
Interest paid on reinsurers' deposits	2	3
Investment income	(29,681)	(24,781)
Provision for outstanding claims	34,592	21,077
Provision/(Writeback) for diminution in value of investments	132	(33)
Fair value movement of investment properties	(1,444)	(527)
Amortisation of premiums, net of accretion of discounts	673	584
Profit from operations before changes in operating assets and liabilities	126,852	100,348
Changes in operating assets and liabilities		
Increase in due premiums including agents/brokers and co-insurers balances and amount due from reinsurers and cedants	(18,067)	(389)
(Increase)/Decrease in other receivables, deposits and prepayments and income due and accrued	(85)	234
Increase in staff loans	(38)	(2,006)
Increase in other payables and accrued expenses	1,425	1,526
Increase in amount due to reinsurers, cedants, agents/ brokers, co-insurers and insureds	(4,749)	(5,726)
Decrease in fixed deposits	(35,332)	(44,050)
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)	(6,166)
Purchase of shares	(6,226)	(2,819)
Proceeds from maturity of Malaysian Government Securities	11,000	4,500
Proceeds from disposal of unquoted debentures, bonds, and loan stocks	8,408	14,548

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Cash flow statements for the year ended 31 December 2007

(continued)

	2007 RM'000	2006 RM'000
Changes in operating assets and liabilities (continued)		
Proceeds from disposal of investments	69,883	5,601
Interest paid on reinsurers' deposits	(2)	(3)
Dividend income received	12,886	11,190
Interest income received	16,476	13,995
Other income received	319	180
Cash generated from operating activities before tax	135,075	78,208
Tax paid	(32,331)	(20,673)
Net cash generated from operating activities	102,744	57,535
Cash flows from investing activities		
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	(1,059)	(5,411)
Cash flow from financing activity		
Dividends paid to holding company	(102,200)	(50,400)
Net cash used in financing activity	(102,200)	(50,400)
Net (decrease)/increase in cash and cash equivalents	(515)	1,724
Cash and cash equivalents at beginning of year	6,375	4,812
Effects of foreign exchange differences	12	(161)
Cash and cash equivalents at end of year	5,872	6,375

The notes on pages 18 to 50 are an integral part of these financial statements.

Lonpac Insurance Bhd

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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 - 25th Floor
Bangunan Public Bank
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 14 January 2008.

1. Basis of preparation

(a) Statement of compliance

The financial statements 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/Circulars issued by Bank Negara Malaysia.

The accounting policies adopted by the Company are consistent with those adopted in the previous year except for the adoption of a new FRS issued by MASB that is effective for the financial period beginning on 1 January 2007, FRS 124 Related Party Disclosures.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

Other than the expanded disclosure requirements as shown in Note 25, the adoption of FRS 124 does not have any significant financial impact on 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, *Cash Flow Statements*	1 July 2007
FRS 111, *Construction Contracts*	1 July 2007
FRS 112, *Income Taxes*	1 July 2007
FRS 118, *Revenue*	1 July 2007
FRS 119, *Employee Benefits*	1 July 2007
FRS 120, *Accounting for Government Grants and Disclosure of Government Assistance*	1 July 2007
Amendment to FRS 121, *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation*	1 July 2007
FRS 126, *Accounting and Reporting by Retirement Benefits Plan*	1 July 2007
FRS 129, *Financial Reporting in Hyperinflationary Economies*	1 July 2007
FRS 134, *Interim Financial Reporting*	1 July 2007
FRS 137, *Provisions, Contingent Liabilities and Contingent Assets*	1 July 2007
FRS 139, *Financial Instruments: Recognition and Measurement*	To be announced
IC Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	1 July 2007
IC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*	1 July 2007
IC Interpretation 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	1 July 2007
IC Interpretation 6, *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*	1 July 2007
IC Interpretation 7, *Applying the Restatement Approach under FRS* 129_{2004} *Financial Reporting in Hyperinflationary Economies*	1 July 2007
IC Interpretation 8, *Scope of FRS 2*	1 July 2007

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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 Company.

FRS 111, FRS 120, FRS 126, FRS 129, IC Interpretations 1, 2, 5, 6 and 7 are not applicable to the 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 FRS 139.103AB.

(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.

(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 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 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.

(b) 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.

2. Significant accounting policies (continued)

(b) Property and equipment (continued)

(i) Recognition and measurement (continued)

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 Company 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.

(iiv) 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.

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.

2. Significant accounting policies (continued)

(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 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.

(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.

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.

2. Significant accounting policies (continued)

(d) 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.

(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 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 (continued)

(e) Impairment of assets (continued)

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.

(f) Trade and other receivables

Trade and other 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, 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.

2. Significant accounting policies (continued)

(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) 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.

(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.

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) $1/24^{th}$ method for all other classes of Malaysian general policies business 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

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

2. Significant accounting policies (continued)

(i) General insurance underwriting results (continued)

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.

(j) 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.

2. Significant accounting policies (continued)

(j) Taxation (continued)

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.

(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.

2. Significant accounting policies (continued)

(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 statements in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

3. Property and equipment

Cost/Valuation	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
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

3. Property and equipment (continued)

Accumulated depreciation	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
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

3. Property and equipment (continued)

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

	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
	====	====

4. Investment properties

	Note	2007 RM'000	2006 RM'000
At 1 January		8,546	400
Effect of movement 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		9,990	8,546
		=====	=====

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

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

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

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5. Investments

	2007 Cost RM'000	2007 Market Value RM'000	2006 Cost RM'000	2006 Market Value RM'000
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	4,988	5,602
Outside Malaysia	104	343	102	293
	25,091	26,261	5,090	5,895
Quoted:				
Equity securities in corporations				
In Malaysia	39,191	156,768	53,198	147,753
Outside Malaysia	2,013	2,147	330	588
	41,204	158,915	53,528	148,341
Unquoted:				
Equity securities in corporations				
In Malaysia	235		235	
Outside Malaysia	56		56	
	291		291	
Provision for diminution in value	(56)		(56)	
	235		235	

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5. Investments (continued)

	2007 Cost RM'000	2007 Market Value RM'000	2006 Cost RM'000	2006 Market Value RM'000
Unquoted:				
Debentures, bonds and loan stocks	28,726		16,134	
Provision for diminution in value	(455)		(422)	
Accretion of discounts	-		620	
Amortisation of premiums	(14)		-	
	28,257		16,332	
Corporate loan	5,500		6,000	
Fixed deposits with:				
- Licensed banks in Malaysia	300,134		275,856	
- Banks outside Malaysia	64,933		47,879	
- Licensed finance companies	-		6,000	
	365,067		329,735	
Total investments	515,702		463,896	

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 RM35,030,000 (2006 - RM50,269,000).

6. Loans (secured)

	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

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7. Trade and other receivables

	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	(1,052)	(1,563)
	61,304	43,237
Other receivables:		
Other receivables, deposits and prepayments	3,317	3,095
Income due and accrued	3,253	3,390
	6,570	6,485
	67,874	49,722

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

8. Cash and cash equivalents

	2007 RM'000	2006 RM'000
Cash and bank balances	5,872	6,375

9. Provision for outstanding claims

	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

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10. Trade and other payables

	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	10,102	8,677
	32,310	35,634

Included in the Company'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.

11. Unearned premium reserves

2007	**Fire RM'000**	**Motor RM'000**	**Marine, Aviation & Transit RM'000**	**Miscellaneous RM'000**	**Total RM'000**
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 reserves	8	37	2	135	182
At 31 December	39,060	53,318	3,428	47,854	143,660

12. Share capital

	2007		2006	
	Amount RM'000	**Number of shares '000**	**Amount RM'000**	**Number of shares '000**
Ordinary shares of RM1.00 each				
Authorised	100,000	100,000	100,000	100,000
	======	======	======	======
Issued and fully-paid	100,000	100,000	100,000	100,000
	======	======	======	======

13. Deferred tax liabilities

Recognised deferred tax liabilities

Recognised deferred tax liabilities are attributable to the following:

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

14. Dividends

Dividends recognised in the current year by the Company are:

2007	**Sen per share (net of tax)**	**Total amount RM'000**	**Date of payment**
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
Total amount		102,200	
		======	
2006			
First interim 2006 ordinary	50.40	50,400	5 December 2006
Total amount		50,400	
		======	

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15. Revenue

	Shareholder's fund RM'000	General business RM'000	Total RM'000
2007			
Gross premium	-	494,289	494,289
Investment income (Note 16)	630	28,378	29,008
	630	522,667	523,297
2006			
Gross premium	-	424,440	424,440
Investment income (Note 16)	568	24,213	24,781
	568	448,653	449,221

16. Investment income

	Shareholder's fund RM'000	General business RM'000	Total RM'000
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)
	630	28,378	29,008

16. Investment income (continued)

	Shareholder's fund RM'000	General business RM'000	Total RM'000
2006			
Gross dividends			
- unit trust	-	175	175
- quoted shares in Malaysia	-	10,800	10,800
- quoted shares outside Malaysia	-	133	133
- unquoted shares in Malaysia	-	82	82
Interest income			
- Corporate loan	-	271	271
- Malaysian Government Securities	-	2,486	2,486
- Malaysian Government Guaranteed Loan	-	400	400
- Cagamas Bond	-	116	116
- Singapore Government Securities	-	195	195
- Debentures/Bonds/Loan Stocks (unquoted)	-	407	407
- Fixed deposits	568	9,552	10,120
Rental of properties received from third parties	-	180	180
Amortisation of premium, net of accretion of discounts	-	(584)	(584)
	568	24,213	24,781

17. Other operating income/(expenses) - net

	2007 RM'000	2006 RM'000
Gain on disposal of investments	52,669	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 investments	(132)	33
Sundry income	2,784	1,732
Fair value movement in investment properties	1,444	527
	57,575	3,651

18. Management expenses

	2007 RM'000	2006 RM'000
Personnel expenses (including key management personnel)		
- Wages, salaries and others	28,389	25,335
- Contributions to Employees' Provident Fund	2,910	2,546
	31,299	27,881
Auditors' remuneration		
- audit fees	281	246
Bad and doubtful debts written off/(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
Total management expenses	61,322	52,940

19. Key management personnel compensation

	2007 RM'000	2006 RM'000
Executive Directors		
- Fees	100	100
- Salaries and contribution to Employees' Provident Fund	1,058	918
- Bonuses	584	528
- Benefits-in-kind	72	68
	1,814	1,614
Non-Executive Directors		
- Fees	392	405
- Benefits-in-kind	22	36
- Other remuneration	72	72
	486	513
Total Directors' Remuneration	2,300	2,127
Total Director's Remuneration (excluding benefits-in-kind)	2,206	2,023

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20. Tax expense

	2007 RM'000	2006 RM'000
Current tax expense		
Malaysian - current	39,501	25,500
- prior years	(401)	442
Overseas - current	33	51
Total current tax	39,133	25,993
Deferred tax expense		
Malaysian - prior year	(392)	-
	38,741	25,993

Reconciliation of effective tax expense

	2007 RM'000	2006 RM'000
Profit for the year	107,073	61,550
Total taxation	38,741	25,993
Profit excluding tax	145,814	87,543
Income tax using Malaysian tax rates of 27% (2006: 28%)	39,370	24,512
Effect of different tax rates for offshore business	(656)	(404)
Non-deductible expenses	1,065	1,162
Tax exempt income	(90)	(72)
Effect of deductible temporary differences not recognised	104	50
Other items	(259)	303
	39,534	25,551
(Over)/Under provision in prior years	(793)	442
Tax expense	38,741	25,993

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.

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank RM68,860,000 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.

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21. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit attributable to ordinary shareholders of RM 107,073,000 (2006 - RM 61,550,000) and the weighted average number of ordinary shares outstanding during the year of 100,000,000 (2006 - 100,000,000).

22. Net claims incurred

		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

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23. Segment information on cash flow

	General business RM'000	Shareholder's fund RM'000	Total RM'000
2007			
Cash flow generated from/(used in):			
Operating activities	544	102,200	102,744
Investing activities	(1,059)	-	(1,059)
Financing activities	-	(102,200)	(102,200)
	(515)	-	(515)
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 foreign exchange differences	12	-	12
At 31 December	5,814	58	5,872
2006			
Cash flow generated from/(used in):			
Operating activities	7,135	50,400	57,535
Investing activities	(5,411)	-	(5,411)
Financing activities	-	(50,400)	(50,400)
	1,724	-	1,724
Net increase in cash and cash equivalents	1,724	-	1,724
Cash and cash equivalents:			
At 1 January as previously reported	4,754	58	4,812
Effect of foreign exchange differences	(161)	-	(161)
At 31 December	6,317	58	6,375

24. 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 net asset 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.

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.

24. Financial instruments (continued)

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.

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24. 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.

	2007					2006				
	Effective interest rate %	Total RM'000	Within 1 year RM'000	1 - 5 years RM'000	After 5 years RM'000	Effective interest rate %	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	5.2	36,844	-	32,818	4,026	6.2	39,403	11,246	28,157	-
Malaysian Government Guaranteed Loan	3.7	10,000	-	10,000	-	3.7	10,018	-	10,018	-
Debentures, bonds and loan stocks										
- Unquoted	5.0	21,080	-	6,000	15,080	6.0	10,833	-	1,000	9,833
Corporate loan	5.0	5,500	1,000	4,500	-	5.0	6,000	500	5,000	500
Fixed deposits	3.4	300,134	300,134	-	-	3.4	281,856	281,856	-	-
Staff loans	3.2	18,235	1,642	5,882	10,711	3.2	18,113	1,674	5,738	10,701
Singapore branch										
Debt securities held to maturity:										
Singapore Government Securities	4.7	3,504	1,148	1,197	1,159	4.7	3,555	-	2,394	1,161
Debentures, bonds and loan stocks										
- Unquoted	2.8	7,177	1,815	4,114	1,248	2.5	5,499	5,499	-	-
Fixed deposits	2.6	64,933	64,933	-	-	3.1	47,879	47,879	-	-
Staff loans	1.5	730	116	428	186	1.5	814	113	446	255

24. 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.

	2007 Carrying amount RM'000	2007 Fair value RM'000	2006 Carrying amount RM'000	2006 Fair value RM'000
Financial assets				
Malaysia Branch				
Malaysian Government Securities	36,844	36,963	39,403	39,721
Malaysian Government Guaranteed Loan	10,000	10,036	10,018	10,021
Equity securities in corporations				
- Quoted	38,290	144,063	53,198	147,753
Unit trust	24,987	25,918	4,988	5,602
Debentures, bonds and loan stocks				
- Unquoted	21,080	21,272	10,833	12,228
Corporate loan	5,500	5,500	6,000	6,000
Staff loans	18,235	18,235	18,113	18,113
	154,936	261,987	142,553	239,438
Singapore Branch				
Singapore Government Securities	3,504	3,562	3,555	3,576
Equity securities in corporations				
- Quoted	2,914	14,852	330	588
Unit trust	104	343	102	293
Debentures, bonds and loan stocks				
- Unquoted	7,177	7,242	5,499	5,499
Staff loans	730	730	814	814
	14,429	26,729	10,300	10,770
	169,365	288,716	152,853	250,208

24. Financial instruments (continued)

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, the carrying amounts approximate their fair values 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 Company's investment in unquoted securities in corporations is insignificant in the context of the financial statements.

25. 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 19.

iv) Companies in Which a Director Has Substantial Financial Interest

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

25. Significant related party disclosures (continued)

a) The significant related party transactions of the Company, other than key management personnel compensation, are as follows:

Company	Holding Company 2007 RM'000	Holding Company 2006 RM'000	Related Company 2007 RM'000	Related Company 2006 RM'000	Companies in which a Director has substantial Financial Interest 2007 RM'000	Companies in which a Director has substantial Financial Interest 2006 RM'000
Income earned:						
Premium income generated from assets insured with the Company	-	-	-	-	19,733	16,222
Dividend income	-	-	-	-	12,404	10,453
Fixed deposits income	-	-	-	-	4,901	4,169
	-	-	-	-	37,038	30,844
Expenditure incurred:						
Rental paid	-	-	-	-	(2,165)	(2,161)
Commission incurred for insurance business introduced	-	-	-	-	(18,066)	(15,474)
Stockbroking commission paid for equity investment	-	-	-	-	(4)	(19)
	-	-	-	-	(20,235)	(17,654)
Transactions:						
Sale of quoted equity securities in Malaysian corporations - at market value	62,306	-	5,166	-	-	-

25. 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	
	2007	**2006**
	RM'000	**RM'000**
Balances with related parties:		
Fixed deposits	104,386	138,527
Bank balances	2,249	2,365
	106,635	140,892