

one | *direction*

Focused Company objective navigates us in fulfilling a strategic and long lasting relationship with our customers.





BOARD OF DIRECTORS



Tan Sri Dato' Sri Dr. Teh Hong Piow
Non-Executive Chairman



FROM TOP LEFT:

Tan Sri Dato' Thong Yaw Hong

Independent Non-Executive
Co-Chairman

Mr. Tee Choon Yeow

Chief Executive Officer/
Executive Director

Mr. Tan Kok Guan

Non-Executive Director

Dato' Haji Abdul Aziz bin Omar

Independent Non-Executive Director

Dato' Yeoh Chin Kee

Independent Non-Executive Director

Mr. Quah Poh Keat

Independent Non-Executive Director

Ms. Kong Thian Mee

Company Secretary



DIRECTORS' PROFILES



Tan Sri Dato' Sri Dr. Teh Hong Piow

PSM, SSAP, SPMJ, SIMP, SSIJ, DSAP, DPMJ,
Datuk Kurnia Sentosa Pahang, JP
Hon LLD (M'sia), FIBM (M'sia), FCIB (UK),
FCIS (Aust), FCFI (UK), FICM (UK), FInstAM (UK)

Non-Executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow, aged 79, was appointed to the Board of the Company on 27 September 1971 and has served as Chairman of the Company since then. He is also a Non-Executive Director and Chairman of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd. Presently, Tan Sri Dato' Sri Dr. Teh Hong Piow serves as Chairman of the Investment, Employees' Share Option Scheme and Share Buy-Back Committees of the Company.

Tan Sri Dato' Sri Dr. Teh Hong Piow is a banker by profession. He began his banking career in 1950 and founded Public Bank Berhad in 1965 at the age of 35. Currently, he is a Director of Public Bank Berhad (Chairman), Public Investment Bank Berhad (Chairman), Public Mutual Berhad (Chairman), Public Islamic Bank Berhad (Chairman), Public Financial Holdings Ltd (Chairman), Public Bank (Hong Kong) Ltd (Chairman),

Cambodian Public Bank Plc, CampuBank Lonpac Insurance Plc (Chairman), Tong Meng Industries Ltd (Chairman), a public company in Singapore, and several other subsidiaries of Public Bank Group.

Tan Sri Dato' Sri Dr. Teh Hong Piow had won both domestic and international acclaim for his outstanding achievements as a banker and the Chief Executive Officer of a leading financial services group. Awards and accolades that he had received include:

- Asia's Commercial Banker of the Year 1991
- The ASEAN Businessman of the Year 1994
- Malaysia's Business Achiever of the Year 1997
- Malaysia's CEO of the Year 1998
- Best CEO in Malaysia 2004
- The Most PR Savvy CEO 2004

- The Asian Banker Leadership Achievement Award 2005 for Malaysia
- Award for Outstanding Contribution to the Development of Financial Services in Asia 2006
- Lifetime Achievement Award 2006
- Award for Lifetime Achievement in Corporate Excellence, Dedication and Industry 2006
- Asia's Banker of High Distinction Award 2006
- The BrandLaureate Brand Personality Award 2007
- ASEAN Most Astute Banker Award 2007
- Lifetime Entrepreneurship Achievement Award 2007
- The Pila Recognition Award 2007
- Asian Banker Par Excellence 2008 Award
- Best CEO in Malaysia 2009
- Best Strategist Award 2009

Tan Sri Dato' Sri Dr. Teh Hong Piow was awarded the Medal 'For the Course of Vietnamese Banking' by the State Bank of Vietnam in 2002 for his contributions to the Vietnamese banking industry over the past years. Tan Sri Dato' Sri Dr. Teh Hong Piow was conferred the Recognition Award 2007 by the National Bank of Cambodia in appreciation of his excellent achievement and significant contribution to the banking industry in Cambodia.

In recognition of his contributions to society and the economy, he was conferred the Doctor of Laws (Honorary) from University of Malaya in 1989.

Tan Sri Dato' Sri Dr. Teh Hong Piow had served in various capacities in public service bodies in Malaysia; he was a member of the Malaysian Business Council from 1991 to 1993;

a member of the National Trust Fund from 1988 to 2001; a founder member of the Advisory Business Council since 2003; and is a member of the IPRM Accreditation Privy Council. He is a Fellow of several institutes which include the Institute of Bankers Malaysia; the Chartered Institute of Bankers, United Kingdom; the Institute of Administrative Management, United Kingdom; the Institute of Chartered Secretaries and Administrators, Australia and the Malaysian Institute of Management.

Tan Sri Dato' Sri Dr. Teh Hong Piow attended 9 out of 11 Board Meetings held during the financial year ended 31 December 2009.



Tan Sri Dato' Thong Yaw Hong

PSM, SIMP, DSAP, DIMP, JMN, SMP, JBS, AMN
BA (Econs Hons), MPA (Harvard),
AMP (Harvard), D.Econ (Hon)

Independent Non-Executive Co-Chairman

Tan Sri Dato' Thong Yaw Hong, aged 79, was appointed to the Board of the Company on 13 February 2008. He is also an Independent Non-Executive Director and Co-Chairman of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd. Presently, Tan Sri Dato' Thong Yaw Hong serves as Chairman of the Audit, Nominating, Remuneration and Risk Management Committees of the Company.

He graduated with a Bachelor of Arts (Hons) degree in Economics from University of Malaya and a Master's degree in Public Administration from Harvard University. He attended the Advanced Management Program at Harvard Business School. In June 1998, he was appointed a Pro-Chancellor of University Putra Malaysia from which he had retired in end June 2006. In September 2006, he was conferred the Doctor of Economics (Honorary) from University Putra Malaysia.

He has had a distinguished career with the Government of Malaysia, primarily in the fields of socio-economic development planning and finance.

He had served in the Economic Planning Unit in the Prime Minister's Department since 1957 and became its Director-General from 1971 to 1978 and served as Secretary-General, Ministry of Finance from 1979 until his retirement in 1986.

Tan Sri Dato' Thong Yaw Hong also serves as member on the Boards of Trustees of Program Pertukaran Fellowship Perdana Menteri Malaysia, Tun Razak Foundation and the Malaysian Institute of Economic Research, among others. He is a member of the Economic Council and is also a Senior Member of the Working Group of the Executive Committee for the Economic Council and National Implementation Task Force (NITF). Tan Sri Dato' Thong Yaw Hong is a Distinguished Fellow of the Institute of Strategic and International Studies (ISIS) Malaysia and is also a Fellow of the Institute of Bankers Malaysia.

Currently, he is a Director of Public Bank Berhad (Co-Chairman), Public Investment Bank Berhad (Co-Chairman), Public Mutual Berhad

(Co-Chairman), Public Islamic Bank Berhad (Co-Chairman), Public Financial Holdings Ltd (Co-Chairman), Public Bank (Hong Kong) Ltd (Co-Chairman), Cambodian Public Bank Plc (Chairman), CampuBank Lonpac Insurance Plc (Co-Chairman), Berjaya Sports Toto Berhad (Chairman), Batu Kawan Berhad, Kuala Lumpur Kepong Berhad, Glenealy Plantations (Malaya) Berhad and Malaysian South-South Corporation Berhad.

Tan Sri Dato' Thong Yaw Hong attended all 11 Board Meetings held during the financial year ended 31 December 2009.



Mr. Tee Choon Yeow

B.Com., CA (NZ), CA (M), FCPA (Aust)
Chief Executive Officer/
Executive Director

Mr. Tee Choon Yeow, aged 57, was appointed to the Board of the Company on 29 October 1991. He is also the Chief Executive Officer of the Company. Presently, Mr. Tee Choon Yeow serves as member of the Investment, Risk Management, Employees' Share Option Scheme and Share Buy-Back Committees of the Company.

Mr. Tee Choon Yeow holds a Bachelor's Degree in Commerce from the University of Canterbury, New Zealand. He joined the Company as an Accountant in 1980. He is a Chartered Accountant of the Institute of Chartered Accountants, New Zealand and the Malaysian Institute of Accountants and a Fellow of the Certified Practising Accountants of Australia.

Mr. Tee Choon Yeow attended all 11 Board Meetings held during the financial year ended 31 December 2009.

Mr. Tan Kok Guan

Chartered Insurer
B.Sc. (Hons.), MBA, ACII, AMII
Non-Executive Director

Mr. Tan Kok Guan, aged 53, was appointed to the Board of the Company on 29 October 1996. He is also the Chief Executive Officer of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd. He joined the Company as Deputy General Manager in 1994. He is presently not involved in any Board Committee of the Company but fully focused on discharging his duties and responsibilities as the Chief Executive Officer of Lonpac Insurance Bhd.

Mr. Tan Kok Guan holds a Bachelor's Degree in Science (Hons.) from the University of London, United Kingdom and a Master of Business Administration from the University of Hawaii. He is also a Chartered Insurer of the Chartered Insurance Institute at London and an Associate of the Malaysian Insurance Institute at Kuala Lumpur.

Mr. Tan Kok Guan attended all 11 Board Meetings held during the financial year ended 31 December 2009.

DIRECTORS' PROFILES (cont'd)



Dato' Yeoh Chin Kee

DIMP
FCPA (Aust), F Fin (Aust)
Independent Non-Executive Director

Dato' Yeoh Chin Kee, aged 67, was appointed to the Board of the Company on 10 February 1978. He is also an Independent Non-Executive Director of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd. Presently, Dato' Yeoh Chin Kee serves as member of the Audit, Nominating, Remuneration, Risk Management and the Employees' Share Option Scheme Committees of the Company.

He is a Fellow of the Certified Practising Accountants of Australia and the Financial Services Institute of Australasia.

Dato' Yeoh Chin Kee began his banking career in 1961. Currently, he is a Director of Public Bank Berhad and several companies of that Group including PB Trustee Services Berhad (Chairman), Public Investment Bank Berhad and Public Islamic Bank Berhad. He is also a Director of Public Bank (L) Ltd, the offshore bank subsidiary of Public Bank Berhad.

Dato' Yeoh Chin Kee attended all 11 Board Meetings held during the financial year ended 31 December 2009.



Dato' Haji Abdul Aziz bin Omar

DIMP
ACA (England & Wales), CA (M),
FIBM (M'sia)
Independent Non-Executive Director

Dato' Haji Abdul Aziz bin Omar, aged 62, was appointed to the Board of the Company on 9 October 2007. He is also an Independent Non-Executive Director of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd. Presently, Dato' Haji Abdul Aziz bin Omar serves as Co-Chairman of the Audit Committee and member of the Nominating, Remuneration and Risk Management Committees of the Company.

Dato' Haji Abdul Aziz bin Omar qualified as a Chartered Accountant from the Institute of Chartered Accountants in England & Wales, and is also a Chartered Accountant of the Malaysian Institute of Accountants.

During his previous banking experiences, he became a Fellow of the Institute of Bankers Malaysia. His other past experiences had been in the areas of audit and accounting, taxation, property, plantation, hotelling, trading and manufacturing.

Currently, Dato' Haji Abdul Aziz bin Omar is a Director of Public Bank Berhad and several companies of that Group including Public Investment Bank Berhad, Public Mutual Berhad, Public Islamic Bank Berhad and PB Trustee Services Berhad.

Dato' Haji Abdul Aziz bin Omar attended all 11 Board Meetings held during the financial year ended 31 December 2009.



Mr. Quah Poh Keat

FCCA (UK), CA (M), CPA (M),
ACMA (UK), Fellow MIT (M'sia)

Independent Non-Executive Director

Mr. Quah Poh Keat, aged 57, was appointed to the Board of the Company on 2 January 2009. He is also an Independent Non-Executive Director of the Company's wholly-owned subsidiary, Lonpac Insurance Bhd. Presently, Mr. Quah serves as a member of the Audit, Nominating, Remuneration and Risk Management Committees of the Company.

He is a Fellow of the Malaysian Institute of Taxation and the Association of Chartered Certified Accountants; and a Member of the Malaysian Institute of Accountants, the Malaysian Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

He was a partner of KPMG since October 1982 and appointed Senior Partner (also known as Managing Partner in other practices) in October 2000 until 30 September 2007. He retired from the firm on 31 December 2007.

He is experienced in auditing, tax and insolvency practices and had worked

in Malaysia and United Kingdom; his experiences include restructuring, demergers and privatisation.

He is active in the banking and service sectors and was one of the tax advisers to the Association of Banks in Malaysia on taxation of interest-in-suspense. He was involved in providing tax and audit services to various domestic and foreign banks in Malaysia.

His directorships in other public companies in Public Bank Group are in Public Bank Berhad, Public Investment Bank Berhad, Public Mutual Berhad, Public Islamic Bank Berhad, Public Financial Holdings Ltd, Public Bank (Hong Kong) Ltd, Cambodian Public Bank Plc and CampuBank Lonpac Insurance Plc. His directorships in other public companies are in IOI Corporation Berhad, PLUS Expressways Berhad and Telekom Malaysia Berhad.

Mr. Quah Poh Keat attended all 11 Board Meetings held during the financial year ended 31 December 2009.



Ms. Kong Thian Mee

FCIS

Company Secretary

Ms. Kong Thian Mee was appointed as Company Secretary of LPI Group on 1 August 2000. Presently, she serves as a member of the Investment and Share Buy-Back Committees of the Company.

She is the Secretary of various Board Committees and heads the Group's Secretariat Department. She is also a Joint Company Secretary of an associate company of the Group, CampuBank Lonpac Insurance Plc.

Ms. Kong Thian Mee is a Chartered Secretary (ICSA) and is a Fellow of The Malaysian Institute of Chartered Secretaries and Administrators.

All of the Directors are Malaysians.

None of the Directors has:

- Any family relationship with any Director and/or major shareholder of LPI Capital Bhd.
- Any conflict of interest in any business arrangement involving LPI Capital Bhd.
- Any convictions for any offences within the past 10 years other than traffic offences.

LETTER TO STAKEHOLDERS

INTRODUCTION

We, the Board of Directors of LPI Capital Bhd are pleased to present the Annual Report and the Audited Financial Statements of LPI Capital Bhd and its subsidiary ("LPI Group") for the financial year ended 31 December 2009.

2009 has been a very challenging year with uncertainties dominating the global financial markets. On the back of resilient economic fundamentals in Malaysia, the LPI Group with its proven track record of profitability and strong assets was able to rise above these challenges. We are pleased to report that LPI Group has once again proven its financial resilience by registering a higher pre-tax profit of RM161.3 million. This was achieved on the back of a record high revenue of RM738.3 million.

TO OUR SHAREHOLDERS

Strong Financial Performance

The LPI Group has strengthened its financial stability further as evidenced by our consistent strong financial performance over the years. The 10-Year Group Financial Summary as reported on pages 32 to 35 of the annual report reflects the growing financial strength and the success of a commercial enterprise in delivering profits to its owners, these being the shareholders of LPI Capital Bhd.

For the financial year ended 31 December 2009, the LPI Group registered an impressive revenue growth of 15.6% to a record high of RM738.3 million from RM638.7 million in 2008. The growth in revenue was mainly attributed to the increase in gross premium income of RM675.2 million, a growth rate of 17.5% by its wholly-owned subsidiary, Lonpac Insurance Bhd ("Lonpac"). The Group's pre-tax profit grew significantly by 13.9% to RM161.3 million from RM141.6 million in 2008.

The Group continued to achieve a double digit growth in the revenue and pre-tax profit notwithstanding the increasing competitive premium pricing and rising claims costs. This bears testimony to the Group's financial resilience to withstand economic uncertainties and tough market conditions. Consequently, the Group's earnings per share ("EPS") improved significantly to 91.6 sen from 75.7 sen in 2008.

The Group continued to improve its work processes and documents processing in 2009 to strengthen its competency and efficiency in delivering the best services to its customers in tandem with the increasing gross premium production. Other various business measures were also implemented to enhance the Group's operating capabilities in the areas of developing innovative and commercially viable products, upgrading the information technology infrastructure, extensive distribution channels and risk management initiatives.

Lonpac's performance improved significantly with its underwriting profit increased by 30% to RM97.6 million from RM75 million. It is gratifying to note that the strategic measures undertaken were effective and the quality of the business portfolio remained healthy. The result is a testimony of its prudent underwriting policy and good risk management.

Strong and Healthy Balance Sheet

As at 31 December 2009, the Group's balance sheet continued to expand at a strong pace, with total assets edged upwards to RM1.49 billion from RM856.2 million in 2008, registering a growth rate of 74%. The significant growth was due to the early adoption of FRS 139 : Financial Instruments - Recognition and Measurement. Despite the volatile equity market and low deposit interest rates, the Group's total investment portfolio remained healthy growing by 85% to RM1.34 billion from RM725.9 million in 2008.

Increased Capital Adequacy Ratio

The Risk-Based Capital ("RBC") framework became effective from 1 January 2009. For the year under review, Lonpac has been consistently registering its Capital Adequacy Ratio ("CAR") well above the Bank Negara Malaysia's supervisory target CAR and its internal CAR. Thus, Lonpac has proven its strong financial position to maintain a capital adequacy level that commensurate with its risk profiles. The RBC framework would further strengthen Lonpac's resilience and robustness of risk management infrastructure and financial strength to face a more challenging economic environment going forward into 2010.

Strategic Business Development

The Group continues to focus on its core organic growth strategies that generated remarkable results for the year under review. In line with its Corporate Mission, "To provide customers with excellent products and services of international standard backed by proven technical and financial strength", the Board and Management recognised the importance of strategic business development and quality customer service to stay ahead of the tough market competition. Towards this, the Group has continually enhanced its business development plans via its 3 main distribution channels, namely Agency, Financial Institution and Broking. This development had effectively expanded the productivity and provided greater penetration into the selected profitable markets.

The Group remained committed to improve its operational efficiency through maintaining cost efficiency at all level of work processes. In addition, the Group has developed its human capital in terms of technical competencies and professional skills to improve further on its management cost. On this note, its management expenses ratio was maintained at 11% for year 2009 notwithstanding having a bigger work force and higher productivity in 2009.

Moving forward, the strategic business plans identified and approved by the Board to widen our market share for sustained growth will continue to drive the Group's business and financial performance well into 2010.

SHAREHOLDER VALUE

The LPI Group is fully committed in delivering superior shareholder value. Strong capital adequacy ratios, positive business growth, best asset quality and consistently high dividend yields are amongst some of the positive attributes of shareholder value of LPI.

The LPI Group continues to create and enhance shareholder value by improving the efficiency of its capital employed and increasing its return on equity, pursuing a high dividend payout policy and maintaining excellent corporate governance.

High Dividend Payout

The LPI Group maintains its high dividend payout policy to reward our loyal shareholders. This certainly augurs well for our shareholders and potential investors who are consistently seeking investment that provides excellent returns. During the year under review, an interim dividend of 26.25 sen net per share comprising franked dividend of 7 sen less 25% tax (5.25 sen net per share) and 21 sen single tier dividend amounting to RM36.1 million was paid in July 2009.

I am pleased to announce that the Board is recommending a final 41.25 sen single tier dividend per share amounting to RM56.8 million, subject to approval from the shareholders at the Annual General Meeting on 11 February 2010.

The total net dividend of 67.5 sen per share amounting to RM92.9 million provide a net dividend yield of approximately 6.2% based on the previous year's average market price. This, the Board believes, would place LPI as one of the superior dividend-paying counters on Bursa Securities.

Efficient Capital Structures

The LPI Group will continue to enhance its capital structure to support the Group's rapidly growing business. The Group has put in place the shares buy-back exercise which was approved by the shareholders in the Annual General Meeting held on 12 February 2009.

A total of 1,054,700 ordinary shares in LPI were bought back and held as treasury shares since 2005. The total cost of the shares bought back up to 31 December 2009 stood at RM8.6 million. Based on the share price of LPI of RM13.70 at 31 December 2009, the shares bought back are worth RM14.45 million and represents an unrealised profit of RM5.85 million.

Strong Corporate Governance

The LPI Group's pursuit of excellence in corporate governance has definitely enhanced shareholder value. Investors, particularly institutional investors, will continue to raise their expectations of the way the corporations conduct their businesses and the level of transparency and their accountability to stakeholders.

LPI Group's continued commitment towards good corporate governance practices was duly recognised and was conferred the Malaysian Business-CIMA Enterprise Governance Merit Awards 2009 for the fifth consecutive year in 2009.

LPI was also conferred 2 Awards by the Minority Shareholder Watchdog Group, namely Most Timely Held Annual General Meeting Award and Distinction Award of the Malaysian Corporate Governance Index 2009. LPI was the earliest public listed company to hold its Annual General Meeting in 2009, held within 43 days after its financial year ended 31 December 2008 whilst the Distinction Award was for LPI's commendable and excellent corporate governance practices.

Superior Returns to Shareholders

The efficient capital structure and high return on equity of LPI Group, its high dividend payout ratio and strong corporate governance culture together with the continued strong financial performance have certainly benefited shareholders of LPI directly. This reflected our commitment for excellent return to shareholders and that was reaffirmed by the conferment of the following awards during the year:

- Winner under Financial Services category of the KPMG Shareholder Value Award 2008 for the fifth consecutive year; and
- Sectoral Winner under Financial Services category of the KPMG Shareholder Value Award 2008. This was the third time LPI emerged as the Sectoral Winner, repeating its excellence as leader in financial services category of the same award in 2006 and 2005.

Over the medium-term period of 5 years, a shareholder of LPI who purchased 1,000 LPI shares at a price of RM5.90 per LPI share at the beginning of 2005 or an investment of RM5,900 and held them for 5 years to the end of 2009 would have received gross dividends totaling RM4,993 and will have 1,000 LPI shares as at the end of 2009. At the price of LPI shares of RM13.70 per ordinary share at the end of 2009, the shareholder would have shares worth RM13,700 which together with the gross dividends of RM4,993, would

give the shareholder an exceptionally high annual rate of return on investment of 32.9% or a total return of 217% for the 5-year period.

If a shareholder of LPI had bought 1,000 shares in LPI when it was listed in 1993, and assuming the shareholder had subscribed for all the rights issues to date and had not sold any of the LPI shares, he would have, at the end of 2009, 5,400 LPI shares worth RM73,980, based on the share price of LPI shares of RM13.70 as at the end of 2009, in addition to receiving a total gross dividend of RM35,322, which LPI has unfailingly paid every year since its listing in 1993. With a capital outlay of RM6,950, including subscription for all rights issues, the total return to this shareholder would be RM102,352 or a remarkable average rate of return of 26.4% annually for each of the 16 years that this shareholder has held the shares in LPI since it was listed in 1993 or a total return of 1,373% for the said period.

TO OUR CUSTOMERS

Best Insurer in Malaysia

Lonpac won all the 5 categories in the Euromoney 2009 Awards and was conferred with the Euromoney 2009 "Best Insurer in Malaysia" Award in recognition of its profitability and efficiency. The Euromoney 2009 awards won by Lonpac are as follows:

BEST INSURER, MALAYSIA

Best Insurer for Innovation, Malaysia
Best Insurer for Price, Malaysia
Best Product Range, Malaysia
Best Insurer for Claims Resolution, Malaysia
Best Consultant for Insurance Risk Transfer, Malaysia

In Malaysia, Lonpac was the first insurance company to receive the widely recognised accolades from Euromoney, a renowned and respected financial publication well known for its strong reputation worldwide. Euromoney Awards were evaluated based on the profitability and efficiency of the winning insurer and took into account the votes by consumers and brokers on which they viewed was the best as well as the insurers' financial ratios, indicators and ratings.

Well Informed Customers

Consumers in the insurance industry are more knowledgeable, assertive and have access to wider choices to make informed decisions on their insurers. In addition, they are aggressively being sought after and offered a wide spectrum of insurance products by the many insurers in the industry. Hence, competition in the insurance industry is bound to become increasingly competitive and can even be aggressive. This requires constant reviewing and repositioning of our business strategies that included greater customer awareness and greater product and services transparency. A key difference in trying to capture the customer is the manner in which a product or service is delivered and how best the customer is served. On this note, the Group proactively pursues service excellent to sustain its competitive edge. Consequently, the Group was awarded the Chubb Multinational Risk Group Outstanding Affiliate Service Award 2008 by Chubb Group of Insurance Companies for its outstanding service level for 2 consecutive years.

Enhancing Customer Service Infrastructure

Realising the need to actively respond to today's borderless consumer needs, the LPI Group has always stay focused to position itself as a responsive insurance company through its customer service infrastructure. A customer service centre was established and officially launched in 2004. The Group continued to invest significant resources in enhancing the customer service infrastructure for the delivery of a high level of customer service. These included the implementation of the 1st phase of Customer Relationship Management ("CRM") during the year. The 2nd phase of CRM is currently in progress that provides effective collaboration amongst various departments where information on customers can be shared and accessed.

The customer service centre has clearly risen to the challenge to transform the excellent services into profitable values in terms of goodwill, good branding and customer retention.

Opening of New Offices

During the year, 2 new branches were opened i.e. in Klang and Sibul. The setting up of new offices was in line with

Lonpac's objective of expanding its distribution channels to service our customers better and also to tap into new potential markets. This expansion increased our network to 21 offices consisting of 3 Regional offices and 16 branches in Malaysia, a branch in Singapore and an associated insurance company in Cambodia.

TO OUR STAFF

LPI Group's success in enhancing shareholders' value and its consistent award-winning performance reflected the contribution of a committed and united team of dedicated and knowledgeable employees who are focused on a common goal and shared mission in striving for excellence. The Group has continuously nurtured, trained and proactively managed its human capital to produce the best in each and every staff. The staff force collectively represents the most invaluable asset of the LPI Group. Hence, we are fully committed to creating value and building growth for our people indefinitely.

Developing Skill and Knowledge

The Group believes that learning is a life-long experience and as such, continuous focus is placed on staff trainings through numerous in-house including on-the-job trainings and external seminars, training workshops and conferences with the aim to equip staff with in-depth technical knowledge relevant to their field of work as well as developing their skills which are essential in this financial service industry.

Significant management and financial resources are allocated in enhancing the long-term value of its human capital. During the year under review, the Group conducted several seminars/conferences for its staff ranging from officer level to higher management level, each covering different aspect of hard and soft skills required for improving their technical competencies.

Besides providing the staff with the relevant skills and knowledge to deliver the highest possible standards of performance, the Group's investment in the development of staff skills and knowledge fulfills the structured management succession planning objectives of the Group and also prepares the staff for career progression

within the Group. The overall staff turnover rate of LPI Group in 2009 remained a low at 6.08%. A well-trained workforce which is skillful and knowledgeable would have a greater capacity and flexibility in adapting to the changing needs of the Group as well as enhancing the Group's ability to redeploy staff without compromising on service delivery standards.

Structured Management Succession

As part of the Group's investment in human capital development, the Group has put in place a structured succession planning process for its senior management staff. The immediate second liners to the senior management would be the candidates earmarked for the succession plan. These candidates are nurtured with the relevant training and skills development programmes and job related exposures to the relevant areas of the positions and responsibilities being planned for and in preparation of such candidates prior to the candidates assuming the higher levels of responsibilities and position.

Rewarding Our People

The Group believes in sharing its success with its staff. LPI Group's fair and transparent performance-based remuneration system and meritocracy-based career progression path underpin the human capital development investment of the Group. Rewards are closely and transparently correlated to the delivery of superior performance of the staff while career progression are given based upon the staff's demonstrated talent and ability on the assigned responsibilities. The reward scheme is carefully and consistently aligned with the Group's business objectives. High performance driven rewards also promotes future solid performance when staff push the boundaries in striving for such high rewards and the satisfaction of personal achievement.

Rising Productivity

LPI Group operates in an intensely competitive environment and faces continued compression of margins. A key strategy for the Group to consistently deliver profitability growth is by enhancing operational efficiency to increase the productivity of the Group's most invaluable asset, its staff. With the investment of human capital development in staff trainings and the transparent and fair performance-based remuneration structure, the

productivity of the LPI Group's staff force continued to rise. The productivity of the Group's staff force as measured by the standard industry indicators continued to rise as the gross premium per employee rose from RM687,000 per employee in 2000 to RM1,244,000 per employee in 2009.

Staff Conduct

LPI Group continues to uphold and inculcate in all its staff, the right corporate values and a culture of commitment, trust, honesty and integrity as well as promote an environment of exemplary corporate conduct and meticulous regulatory compliance. Such corporate philosophy continues to be one of the key drivers to outperform our competitors and achieve superior results. LPI Group, being primarily in the insurance industry where integrity and trust are of utmost importance is governed by the Code of Ethics issued by Persatuan Insurans Am Malaysia ("PIAM") which had been codified in the Staff Disciplinary Handbook. The stringent and uncompromising adherence to the Group's ethical rules of zero tolerance of dishonesty and the lack of integrity is absolutely necessary to engender and sustain the trust of the public implicit in the role of the Group as a trusted and respected financial institution.

Caring for Our Staff

The LPI Group has always demonstrated that it cares for the welfare of its staff and their family. In addition to a fair and competitive salary structure and a host of staff benefits, the Group had in 2008, adopted certain measures to provide immediate financial ease to the staff in view of the rising inflation and cost of living due to high crude oil prices then. These measures were in the form of salary adjustments, reduced interest rates and extension of repayment period for housing and car loans as well as motorcycle loan scheme for a cheaper vehicle loan alternative. The effect of such reduction in interest rates and extension of loan repayment period would be benefited by the staff in the long run throughout the tenure of their loan. Notwithstanding the increased operating cost arising from such measures, it is a worthwhile investment where it provides immediate financial relief to the staff.

TO THE COMMUNITY

LPI Group's commitment to excellence to its stakeholders is clearly extended to encompass the broader community that the Group serves and where it operates its business. In fulfilling Corporate Social Responsibility ("CSR"), the Group seeks to conduct its business activities ethically, responsibly and prudently, whilst engaging the society and environment in which it operates. Hence, in pursuit to enhance the shareholders' value, the Group continuously plays its role as a socially responsible corporate citizen in the community. Serving the community is one focal area of the Group's CSR with the aim of caring for the well-being of the society at large.

Contribution to the Malaysian Economy

LPI Group as a financial services provider with continuous profitability has played its role in contributing to the development and maturity of the Country's financial system. With consistent and sturdy financial performance, the Group contributes to the strong and stable financial system and therefore playing its role in promoting a robust and resilient Malaysian economy. Our contribution to the Country's economy will ultimately benefit the broader economy and everyone in the community.

Community Activities

Throughout the year, the Group took part in various social activities in support of the community and care for the society's well-being. This includes organising social visits and providing financial assistance to orphanage, centre for children with special needs and participating in charity fund raising activities.

In addition, the Group contributed financially to support sporting events organised in the Country and development programme including the Sarawak Chief Minister's Cup ITF World Junior Tennis Championship 2009, Kapit Division Lawn Tennis Association Junior Tennis Development Programme, 9th Edition of the Borneo Sevens Rugby Tournament 2009, 6th IGB Dato' Arthur Tan Malaysia Open Chess Championship and Malaysian Chess Festival 2009.

During the year, a Blood Donation Campaign was organised in support of Tabung Darah Negara. The blood donation campaign successfully attracted donors from among our staff as well as the general public. Lonpac

Community Health Day was held in November 2009 in collaboration with National Kidney Foundation. The Lonpac Community Health Day invited participation from the general public and staff to attend a health talk on "Kidney Disease: Common, Harmful But Treatable", health screening and counseling.

LPI Group also collaborated with the Ministry of Transport, Road Safety Department and PLUS Highway Toll operator to launch a Road Safety Campaign "Buckle-up - It Is The Law" in January 2010.

In addition, employment opportunities had been created by hiring fresh graduates for the available job vacancies in the Group as an effort to help the Government curbs the Country's unemployment rate.

AWARDS AND RECOGNITION

The many awards and recognition conferred upon the LPI Group these past years truly reflect the Group's commitment to excellent corporate governance practices, consistent delivery of shareholder value, efficient networking and outstanding service level. In 2009, the Group continued to receive accolades from reputable domestic and international publications and other third party organisations.

FOR INDUSTRY EXCELLENCE

Euromoney 2009 "Best Insurer in Malaysia" Award

- Best Insurer for Innovation, Malaysia
- Best Insurer for Price, Malaysia
- Best Product Range, Malaysia
- Best Insurer for Claims Resolution, Malaysia
- Best Consultant for Insurance Risk Transfer, Malaysia

FOR SUPERIOR SHAREHOLDER VALUE

KPMG Shareholder Value Award 2008

- Sectoral Winner in Financial Services Category
- Winner in Financial Services Category for the fifth consecutive year

FOR EXCELLENT CORPORATE GOVERNANCE

Malaysian Business-CIMA Enterprise Governance Awards 2009

- Merit Award for the fifth consecutive year

Malaysian Corporate Governance Index 2009

- Most Timely Held Annual General Meeting Award
- Distinction Award

FOR EXCELLENT ANNUAL CORPORATE REPORTING

National Annual Corporate Report Awards ("NACRA") 2009

- Certificate of Merit

FOR OUTSTANDING SERVICE LEVEL

Chubb Multinational Risk Group Outstanding Affiliate Service Award 2008 for the second consecutive year.

Apart from acknowledging the outstanding achievements of LPI Group, these accolades will certainly further motivate and reaffirm the commitment of the Group for higher standards in its relentless pursuit of excellent performance and the delivery of distinctive value to all its shareholders.

MEDIUM TERM SCENARIO PLANNING

As part of the business strategic process to achieve the Group's Corporate Mission, the LPI Group has put in place medium term plans for the next 6 years to deliver continued growth and profitability as well as distinctive value to all its stakeholders.

The key performance indicators included in the medium term plans would be monitored and measured in the review of the Group's performance. Barring unforeseen circumstances, the Board is confident that the envisaged growth and profitability targets in the medium term plans would be achieved.

PROSPECTS

Despite the more challenging economic environment in 2009, Malaysia's economic fundamentals remain resilient as result of the various initiatives undertaken by the Government to mitigate the impact of the global downturn on the economy. On this note, the Board applauds the Government for the timely and effective fiscal and monetary measures to cushion the impact of the crisis. The Malaysian economy is expected to further improve in 2010, projected to grow by 2% to 3% driven by stronger domestic demand and a stable external environment, with global economy and global trade projected to grow at a measured pace by 3% and 6% respectively in 2010. These positive developments augur well for the insurance industry and provide a strong foundation for growth in 2010.

The LPI Group having overcome all challenges faced in its 47-year journey thus far, is well positioned and confident of staying ahead of the economically challenged times. With the Group's resilient financial performance, strong and healthy balance sheet and commendable capital adequacy ratio, we are confident that LPI Group has the capacity to emerge as one of the most established and well managed insurance companies in the insurance industry. Prospects for the year 2010 therefore remain bright.

We are pleased to announce that A.M. Best, a worldwide insurance rating and information agency, has reaffirmed a financial strength rating of "A-" (Excellent) and an issuer credit rating of "a-" to Lonpac in September 2009. The ratings reflect Lonpac's adequate capitalisation and its ability to manage profitable growth. The ratings also recognised the Company's wide distribution platform and sound spread of business composition.

Lonpac has also successfully renewed its treaty reinsurance arrangement for the next underwriting year 2010 well before the close of 2009, reflecting on the good quality of its business portfolio.

ACKNOWLEDGEMENT

We wish to express our appreciation and thanks to all our valued agents, brokers, reinsurers, policyholders and other business associates for your continued support, confidence, trust and contributions during the past year.

To the Management and all the staff of the LPI Group, we wish to place on record our heartfelt gratitude for your invaluable contributions, loyalty, diligence and whole-hearted commitment that have indeed contributed to the continuing success of the Group.

We also wish to convey our sincere appreciation and gratitude to all our shareholders as well as the Minority Shareholder Watchdog Group for their confidence and continuous support in the LPI Group.

Last but not least, the Board and Management would also like to thank Bank Negara Malaysia and all other relevant Regulatory Authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow

Chairman

Tan Sri Dato' Thong Yaw Hong

Co-Chairman

Mr. Tee Choon Yeow

Chief Executive Officer

Dato' Haji Abdul Aziz bin Omar

Director

Dato' Yeoh Chin Kee

Director

Mr. Quah Poh Keat

Director

Mr. Tan Kok Guan

Director

7 January 2010