



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

#### 1. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS AND OPERATION OF THE COMPANY

##### 1.1 Basis for preparation of the financial statements

The financial statements have been prepared in accordance with the regulations of the Stock Exchange of Thailand dated January 22, 2001, regarding the basis, conditions and procedures for the preparation and submission of financial statements and reports for the financial position and results of operations of listed companies B.E. 2544, and the Registrar's Notification of the Department of Insurance No. 10/2545 regarding the presentation of the financial statements of insurance companies dated March 6, 2002 and in accordance with generally accepted accounting standards in Thailand.

The Company maintains its accounting records in Thai Baht and prepares its statutory financial statements in the Thai language in conformity with accounting standards and practices generally accepted in Thailand.

##### 1.2 Operation of the Company

The Company was registered in Thailand on October 7, 1950. The main business is non-life insurance and the Company was awarded its license to operate all classes of non-life insurance on May 21, 1971. The head office is located at Ploenchit Tower, 7<sup>th</sup> floor, 898 Ploenchit Road, Lumpini, Pathumwan, Bangkok. As at December 31, 2007 and 2006, the Company has total staff of 364 and 353 persons, respectively.

##### 1.3 Accounting standards announced but not effective

The Federation of Accounting Professions has issued Notifications of Federation of Accounting Professions No. 9/2550 dated May 2, 2007, No. 38/2550 dated September 21, 2007 and No. 62/2550 dated December 7, 2007 regarding the following accounting standards applicable to the Company's financial statements that were announced in the Royal Gazette, but are not in effect in 2007:

TAS 25 (Revised 2007)	Cash Flow Statements
TAS 29 (Revised 2007)	Leases
TAS 35 (Revised 2007)	Presentation of Financial Statements
TAS 39 (Revised 2007)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 41 (Revised 2007)	Interim Financial Reporting
TAS 51	Intangible Assets



These accounting standards will supersede previously issued accounting standards when they become effective. The management has assessed the impact of these accounting standards, when they are effective, for financial periods beginning on or after January 1, 2008 and do not expect them to have a material effect on Company's financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Cash and cash equivalents

Cash and cash equivalents include cash on hand and all types of deposits with banks including investment in securities-notes with original maturity of 3 months or less.

In the statement of cash flows, deposits at banks used as collateral or having original terms to maturity over 3 months are not included in cash and cash equivalents but are presented in investing activities.

### 2.2 Recognition of revenues and expenses

#### Premium

Premium income is recognized on the date the insurance policy is issued after deducting premium ceded and premium cancelled and refunded.

#### Reinsurance premium

Reinsurance premium income is recognized when the Company receives the reinsurance application or statement of accounts from the ceding company. Reinsurance profit commissions are recognized when the Company receives the statement of accounts from the reinsurers.

#### Interest and dividends

Interest is recognized as income on an accrual basis. Dividends are recognized as income on the closing date of shareholders' register or on the date on which the right to receive the dividend arises.

#### Commissions and brokerages

Commissions and brokerages are recognized as expenses on an accrual basis.

#### Expenses

Expenses are recognized on an accrual basis.

### 2.3 Investment in securities

Securities classified as available for sale are stated at fair value. Gain or loss on the change in fair value is recognized as a component of shareholders' equity.

Securities classified as general investments are stated at cost.



Debt securities classified as held to maturity are stated at amortized cost.

In case an other than temporary impairment in value of an investment has occurred, the resultant loss for all classification of investments is recognized in the statement of income.

Premiums and discounts on debt securities are amortized and accreted to income as adjustments to interest income by using the effective interest rate method.

The costs of securities sold are determined by the weighted average method.

Fair value of investments is calculated on the following basis:

1. Private sector debt and equity securities which are listed securities are calculated by using the bid prices at The Stock Exchange of Thailand on the last business day of the year.
2. Government bonds are estimated by management using the Bank of Thailand (BOT) formula, based on the risk free yield curve of the Bank.
3. Private sector debt securities which are non-listed securities, are calculated by using the bid prices at The Thai Bond Market Association on the last business day of the year. In the absence of such prices, market values are estimated by applying the aforementioned risk adjusted yield curve.

#### 2.4 Allowance for doubtful accounts and bad debt

The allowance for doubtful accounts is provided at the estimated collection losses on receivables at the end of the year. Such estimated losses are based on the Company's collection experience together with a review of the financial position of the debtors and the value of collateral for the loan.

#### 2.5 Premises and equipment

Land is stated at cost. Premises and equipment are stated at cost, net of accumulated depreciation.

Depreciation is calculated by the straight-line method, based on the estimated useful lives of the assets as follows:

Building	20 years
Others	5 years

#### 2.6 Intangible assets

Intangible assets consisting of computer software are stated at cost, net of accumulated amortization.

Amortization is calculated by the straight-line method, based on the estimated useful lives of the assets of 5 years.



## 2.7 Unearned premium reserve

Unearned premium reserve is set aside in compliance with the basis as specified in the Notification of the Ministry of Commerce as follows:

Fire, Marine (Hull), Motor and Miscellaneous	- Monthly average basis (the one-twenty fourth basis)
Marine (Cargo) days	- Net premium written for the last ninety days
Travelling accident	- Net premium written for the last thirty days

## 2.8 Loss reserve and outstanding claims

Loss reserve and outstanding claims have been provided upon receipt of claim advices from the insured and recorded at the amount appraised by an independent appraiser or by the Company's appraiser. In addition, the Company records a provision for losses incurred but not yet reported (IBNR) equal to 2.5% of net premium written for the last 12 months.

## 2.9 Provident fund

The Company has a provident fund which is contributory and has been registered in accordance with the Provident Fund Act B.E. 2530 (1987). The Company's contribution to the Fund is recorded as expense for the year.

## 2.10 Income tax expenses

The Company has early adopted Thai Accounting Standard No. 56 "Accounting for Income Taxes". The policy is as follows:

Income tax expense is based on the taxable profit multiplied by the tax rate that has been enacted at the balance sheet date and adjusted by the effect of deferred income tax accounting.

Deferred tax assets and liabilities result from temporary differences between the carrying amounts of assets or liabilities in the balance sheet and their tax bases. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax expenses are charged or credited in the statement of income, except when the temporary differences relate to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity.

Deferred tax assets and liabilities are offset when they relate to income tax levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.



#### 2.11 Basic earnings per share

Basic earnings per share is calculated by dividing net income by the number of weighted average ordinary shares outstanding at the end of the year. In the case of a capital increase, the number of shares is equal to the weighted average according to the time of the subscription received for the increase in issued and paid-up share capital. As at December 31, 2007 and 2006, the Company does not have any common share equivalents outstanding which would have had a dilutive effect on earnings per share.

#### 2.12 Foreign currency transactions

Transactions during the year denominated in foreign currencies are translated into Baht at the rates of exchange prevailing at the transaction dates. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into Baht at the reference exchange rates established by the Bank of Thailand at that date. Gains and losses on exchange arising on settlements and translation are recognized as income or expense when incurred.

#### 2.13 Use of accounting estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities. The actual result may differ from such estimates.

### 3. CHANGE IN ACCOUNTING POLICY

In 2006, the Company changed its accounting policy regarding unearned premium reserve of ceded premium to foreign reinsurers from the former accounting treatment of recording this unearned premium reserve to the new accounting treatment of not recording this unearned premium reserve in the financial statements for the year ended December 31, 2006. The Company believes that this change in the accounting policy is appropriate because the related risk has been transferred to the reinsurers and this change in accounting policy is in line with the announcement of the Department of Insurance regarding accounting for unearned premium reserves dated September 7, 2006. As a result of such change, the beginning balance of the retained earnings as at January 1, 2006 increased by Baht 30.42 million.

As a result of such change in accounting policy, The balance sheets as at December 31, 2007 and 2006, did not include additional unearned premium reserve of ceded premium to foreign reinsurers of Baht 48.70 million and Baht 37.80 million, respectively. Such unearned premium reserve was required to be recorded in the financial report to be submitted particularly to the Department of Insurance under its relevant regulations.



#### 4. ADDITIONAL INFORMATION FOR CASH FLOWS

4.1 As at December 31, 2007 and 2006, the surplus on revaluation of investments of Baht 288.13 million and Baht 105.36 million, respectively, in the shareholders' equity, were shown net of deferred tax of Baht 123.48 million and Baht 35.12 million, respectively. For the years ended December 31, 2007 and 2006, the Company has an increase (decrease) in the surplus on revaluation of investments of Baht 182.77 million (net of deferred tax of Baht 78.33 million) and Baht (219.41) million (net of deferred tax of Baht (73.13) million), respectively.

4.2 Cash and cash equivalents consist of the following:

	<b>2007</b>	<b>2006</b>
	<b>Baht</b>	<b>Baht</b>
Cash and deposits at financial institutions	486,472,226	705,727,853
Investment in securities - treasury bills	898,485,841	327,865,788
Investment in securities - notes	636,029,633	505,432,507
	<u>2,020,987,700</u>	<u>1,539,026,148</u>
<u>Less</u> Deposits at bank with maturity over 3 months	(288,382,675)	(262,534,806)
Deposits at bank used as collateral	(44,000,000)	(44,000,000)
Treasury bills with maturity over 3 months	(168,993,000)	(49,292,045)
Notes with maturity over 3 months	<u>(292,589,707)</u>	<u>(274,070,380)</u>
Cash and cash equivalents	<u><u>1,227,022,318</u></u>	<u><u>909,128,917</u></u>

4.3 Cash flows provided by operating activities

Items to reconcile net profit to net cash flows provided by operating activities for the years ended December 31, 2007 and 2006 are as follows:

	<b>2007</b>	<b>2006</b>
	<b>Baht</b>	<b>Baht</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit	407,098,561	360,485,260
Items to reconcile net profit to net cash flows:		
Depreciation	20,498,625	20,547,650
Amortization of intangible assets	1,441,361	1,295,313
Gain on sale of assets	(2,277,464)	(2,128,866)
Unearned premium reserve increase (decrease) from previous year	(62,677,678)	18,789,065
Amortization of bonds premium	236,930	224,869
Amortization of bonds discount	(1,926,830)	(1,828,655)
Amortization of treasury bills discount	(3,618,515)	(484,929)
Amortization of notes discount	(11,892,981)	(11,892,981)
Gain on sale of investment in securities available for sale - ordinary shares	(46,310,114)	(1,732,768)
Loss (gain) on sale of investment in securities available for sale		
- other securities	5,060,782	(44,082,783)
Loss on sale of investment in securities available for sale - warrants	312,268	-
Gain on exercise of warrants for purchase of ordinary shares	-	(2,340,068)
Gain on sale of general investment - ordinary shares	-	(8,966,260)
Bad debt and doubtful accounts	330,188	32,161
Deferred tax	<u>8,250,473</u>	<u>(154,164)</u>
Profit from operations before changes in operating assets and liabilities	<u>314,525,606</u>	<u>327,762,844</u>



	2007 Baht	2006 Baht
Operating assets (increase) decrease		
Amount deposit on reinsurance treaties	(43,195)	231,721
Due from reinsurers	(2,935,710)	59,822,073
Premium due and uncollected	9,768,724	35,627,321
Accrued income on investment	(5,052,542)	1,542,840
Intangible assets	10,776,619	2,932,375
Other assets	(14,774,614)	(7,899,432)
Operating liabilities increase (decrease)		
Loss reserves and outstanding claims	(50,344,696)	47,602,365
Amount withheld on reinsurance treaties	(2,630,787)	3,218,332
Due to reinsurers	33,343,712	(6,248,378)
Premium written received in advance	1,748,759	16,786,131
Accrued commissions	(1,254,620)	(6,296,670)
Other liabilities	(18,586,989)	15,224,820
Net cash provided by operating activities	<u>274,540,267</u>	<u>490,306,342</u>

## 5. INVESTMENT IN SECURITIES

Investment in securities as at December 31, 2007 consists of the following:

	Cost/Amortized Cost Baht	Unrealized Gains Baht	Unrealized Losses Baht	Fair Value Baht
<b>Securities available for sale</b>				
Equity securities				
Investment in listed securities				
Ordinary shares	668,606,009	425,857,525	(71,236,287)	1,023,227,247
Other securities				
Unit trusts	2,014,228,129	47,818,195	(16,252,196)	2,045,794,128
Debt securities				
Treasury bills	898,482,952	2,889	-	898,485,841
Bonds	149,468,663	860,929	-	150,329,592
Notes	423,489,046	-	(134,394)	423,354,652
Debentures	130,000,000	-	-	130,000,000
<b>Total</b>	<u>4,284,274,799</u>	<u>474,539,538</u>	<u>(87,622,877)</u>	<u>4,671,191,460</u>
				<b>Cost/ Book Value Baht</b>
<b>Securities for general investment</b>				
Equity securities				
Ordinary shares				830,389,869
Less Allowance for impairment				(25,297,507)
Add Unrealized gain on transfer of investment				<u>24,695,119</u>
				829,787,481
Other securities : Unit trusts				<u>39,482</u>
<b>Total</b>				<u>829,826,963</u>



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	Maturity within		Amortized Cost Baht
	1 year Baht	2-5 years Baht	
<b>Securities held to maturity</b>			
Debt securities			
Notes	212,674,981	-	212,674,981
<b>Total</b>	212,674,981	-	212,674,981
<b>Total value of investment in securities</b>			5,713,693,404

Other information related to held to maturity securities are as follows:

	Amortized Cost	Unrealized	Unrealized	Fair Value
	Baht	Gains Baht	Losses Baht	Baht
<b>Securities held to maturity</b>				
Debt securities				
Notes	212,674,981	-	-	212,674,981
<b>Total</b>	212,674,981	-	-	212,674,981

Investment in securities as at December 31, 2006 consists of the following:

	Cost/Amortized	Unrealized	Unrealized	Fair Value
	Cost Baht	Gains Baht	Losses Baht	Baht
<b>Securities available for sale</b>				
Equity securities				
Investment in listed securities				
Ordinary shares	1,424,345,969	591,770,542	(414,120,641)	1,601,995,870
Warrants	536,993	-	(367,995)	168,998
Other securities				
Unit trusts	1,944,138,996	10,210,531	(64,198,022)	1,890,151,505
Debt securities				
Treasury bills	327,872,561	-	(6,773)	327,865,788
Bonds	117,748,338	-	(739,114)	117,009,224
Notes	462,193,248	-	(6,760,741)	455,432,507
<b>Total</b>	4,276,836,105	601,981,073	(486,193,286)	4,392,623,892

	Cost/ Book Value Baht
<b>Securities for general investment</b>	
Equity securities	
Ordinary shares	817,830,269
Less Allowance for impairment	(25,297,507)
Add Unrealized gain on transfer of investment	24,695,119
	817,227,881
Other securities : Unit trusts	39,482
<b>Total</b>	817,267,363



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	Maturity within		Amortized Cost Baht
	1 year Baht	2-5 years Baht	
<b>Securities held to maturity</b>			
Debt securities			
Notes	50,000,000	-	50,000,000
<b>Total</b>	50,000,000	-	50,000,000
<b>Total value of investment in securities</b>			5,259,891,255

Other information related to held to maturity securities are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	Baht	Baht	Baht	Baht
<b>Securities held to maturity</b>				
Debt securities				
Notes	50,000,000	-	-	50,000,000
<b>Total</b>	50,000,000	-	-	50,000,000

As at December 31, 2007 and 2006, certain government bonds which were pledged with the court under consideration of the appeal court were as follows: (see Note 11)

	Par value Baht	Fair value	
		2007	2006
		Baht	Baht
Government bonds	80,000,000	79,844,550	77,665,682

In 2002, the Company transferred stock of a related company previously included in securities available for sale to general investment as such company delisted their shares from the Stock Exchange of Thailand. The fair value of the stock at the transfer date amounted to Baht 154,700,428. The unrealized gain on the transfer of investment amounting to Baht 24,695,119 was deducted from unrealized loss on the change in value of investment under shareholders' equity.

## 6. LOANS

Other loans are loans to employees in accordance with the welfare policy of the Company, with interest rates of 4.0% - 7.0% per annum for the years ended December 31, 2007 and 2006.

## 7. CASH AND DEPOSITS AT FINANCIAL INSTITUTIONS

	2007	2006
	Baht	Baht
Cash	215,000	215,000
Cash at banks-call deposits	23,697,251	89,061,460
Cash at banks-time deposits	462,559,975	616,451,393
<b>Total cash and deposits at financial institutions</b>	486,472,226	705,727,853



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As at December 31, 2007 and 2006, fixed deposits amounting to Baht 44 million are pledged as collateral for bank overdrafts, loans in the form of promissory notes and deposited as collateral with the Registrar of Baht 20 million, Baht 10 million and Baht 14 million, respectively (see Notes 12 and 13).

#### 8. PREMISES AND EQUIPMENT - NET

Premises and equipment - net as at December 31, 2007 and 2006 consist of the following:

	Balance as at December 31, 2006 Baht	Increase Baht	Disposal Baht	Balance as at December 31, 2007 Baht
<b>Cost</b>				
Land	1,610,500	-	-	1,610,500
Buildings	773,500	-	-	773,500
Office equipment	72,721,258	3,447,904	(1,646,383)	74,522,779
Furniture and fixtures	23,726,745	998,830	(86,586)	24,638,989
Vehicles	55,920,912	11,713,823	(5,601,800)	62,032,935
Total premises and equipment	<u>154,752,915</u>	<u>16,160,557</u>	<u>(7,334,769)</u>	<u>163,578,703</u>
<b>Accumulated depreciation</b>				
Buildings	(576,814)	(29,350)	-	(606,164)
Office equipment	(49,342,082)	(7,817,522)	1,646,249	(55,513,355)
Furniture and fixtures	(12,443,340)	(3,060,393)	86,536	(15,417,197)
Vehicles	(31,590,213)	(9,591,360)	5,601,794	(35,579,779)
Total accumulated depreciation	<u>(93,952,449)</u>	<u>(20,498,625)</u>	<u>7,334,579</u>	<u>(107,116,495)</u>
<b>Premises and equipment - net</b>	<u><u>60,800,466</u></u>			<u><u>56,462,208</u></u>
<b>Depreciation for the years ended December 31,</b>				
2007				<u>20,498,625</u>
2006				<u>20,547,650</u>

As at December 31, 2007 and 2006, certain fixed assets at cost of Baht 55.50 million and Baht 49.97 million, respectively, were fully depreciated but still in use.

#### 9. PREMIUM DUE AND UNCOLLECTED - NET

Premium due and uncollected - net as at December 31, 2007 and 2006 consist of the following:

	2007 Baht	2006 Baht
Not over 60 days	147,418,007	141,002,599
Over 60 days up to 90 days	47,502,517	46,841,644
More than 90 days	36,515,167	53,690,360
Total premium due and uncollected	<u>231,435,691</u>	<u>241,534,603</u>
<u>Less</u> Allowance for doubtful accounts	<u>(6,918,973)</u>	<u>(6,918,973)</u>
Total premium due and uncollected - net	<u><u>224,516,718</u></u>	<u><u>234,615,630</u></u>



The balances as at December 31, 2007 and 2006 of premium due and uncollected are classified by aging as follows:

	<b>2007</b>	<b>2006</b>
	<b>Baht</b>	<b>Baht</b>
Not over 3 months	194,920,524	187,844,243
Over 3 months up to 6 months	26,174,792	34,069,282
Over 6 months up to 12 months	9,890,985	19,150,311
More than 12 months	449,390	470,767
Total	<u>231,435,691</u>	<u>241,534,603</u>

#### 10. INTANGIBLE ASSETS - NET

Intangible assets - net as at December 31, 2007 and 2006 consist of the following:

	<b>2007</b>	<b>2006</b>
	<b>Baht</b>	<b>Baht</b>
Computer software		
Cost	19,419,859	16,487,484
Purchase during the year	10,776,619	2,932,375
<u>Less</u> Accumulated amortization	<u>(15,879,989)</u>	<u>(14,438,628)</u>
Total intangible assets - net	<u>14,316,489</u>	<u>4,981,231</u>

#### 11. LOSS RESERVES AND OUTSTANDING CLAIMS

As at December 31, 2007 and 2006, the loss reserves and outstanding claims account included outstanding claims and accrued interest of Baht 73.09 million and Baht 70 million, respectively, caused by a loss claim incurred by an insured company on September 24, 1997. On September 30, 2003, the courts passed a verdict that the Company had to pay the claim of Baht 41.29 million including 7.5% per annum of interest from the date of litigation until such claim is paid. The Company recorded such claim and accrued interest since 2003. However, in 2004 the Company has submitted an appeal to the court. Currently, such case is still under consideration of the appeal court.

In addition during 2005, certain government bonds were pledged with the court for such appeal (see Note 5).

#### 12. BANK OVERDRAFTS

As at December 31, 2007 and 2006, the Company had credit lines for bank overdrafts and loans in the form of promissory notes of Baht 20 million and Baht 10 million, respectively, which were guaranteed by a fixed deposit of Baht 30 million. The interest rate was the fixed deposit rate plus 2% (see Note 7).



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### 13. DEPOSITS WITH THE REGISTRAR

As at December 31, 2007 and 2006, fixed deposits amounting to Baht 14 million were deposited with the Registrar in accordance with the Insurance Act (see Note 7).

### 14. LONG-TERM LEASES AND SERVICE AGREEMENTS

Long-term leases and service agreements consist of the following:

Type of lease	Remaining periods	Rental payments for the remaining periods Baht
<b>December 31, 2007</b>		
Building	January 1, 2008 - August 31, 2008	2,197,515
Service	January 1, 2008 - August 31, 2008	2,197,515
Equipment	January 1, 2008 - August 31, 2008	<u>2,930,020</u>
		<u>7,325,050</u>
<b>December 31, 2006</b>		
Building	January 1, 2007 - August 31, 2008	5,812,095
Service	January 1, 2007 - August 31, 2008	5,812,095
Equipment	January 1, 2007 - August 31, 2008	<u>7,749,460</u>
		<u>19,373,650</u>

### 15. STATUTORY RESERVE

Pursuant to the Public Limited Companies Act B.E. 2535, the Company must allocate to a reserve fund from the annual net profit, not less than five percent of the annual net profit deducted by the total accumulated loss brought forward (if any) until the reserve fund reaches an amount of not less than ten percent of the authorized capital. Such reserve fund is not available for distribution as dividend.

### 16. OTHER RESERVES

As at December 31, 2007 and 2006, other reserves amounting to Baht 900 million were set without having a specific objective.

### 17. GAIN ON INVESTMENT IN SECURITIES

Gain on investment in securities for the years ended December 31, 2007 and 2006 consist of the following:

	2007 Baht	2006 Baht
Gain on sale of securities available for sale - ordinary shares	46,310,114	1,732,768
Gain (loss) on sale of securities available for sale - other securities	(5,060,782)	44,082,783
Loss on sale of securities available for sale - warrants	(312,268)	-
Gain on exercised of warrant for purchase of ordinary shares	-	2,340,068
Gain on sale of general investments - ordinary shares	-	<u>8,966,260</u>
Total gain on investment in securities	<u>40,937,064</u>	<u>57,121,879</u>



## 18. INCOME TAX EXPENSES

For the years ended December 31, 2007 and 2006, income tax expenses consisted of the following:

	<b>2007</b>	<b>2006</b>
	<b>Baht</b>	<b>Baht</b>
Income tax expenses - current tax	50,265,183	54,741,487
<u>Add (Less) Tax effect from deferred income tax</u>		
Effect of change in the applicable tax rate used in tax calculation for the portion of net income up to Baht 300 million from 25% to 30%	(20,183,332)	-
Unearned premium reserve	13,166,584	(7,890,085)
Loss reserve - net	14,476,327	(10,975,141)
Incurred but not reported claims	821,598	(721,011)
Allowance for impairment of securities available for sale	-	18,122,364
Others	(30,704)	4,061,813
Income tax expenses	<u>58,515,656</u>	<u>57,339,427</u>

According to the Royal Decree No. 387 B.E. 2544 issued under the Revenue Code regarding the corporate income tax rate deduction dated August 28, 2001, the corporate income tax for listed companies of the Stock Exchange of Thailand has been reduced from 30% to 25% of net profit which does not exceed Baht 300 million. This will remain in effect for five consecutive accounting periods beginning on or after September 6, 2001.

As at December 31, 2007 and 2006, deferred tax assets and liabilities which resulted from the temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base are as follows:

	<b>2007</b>	<b>2006</b>
	<b>Baht</b>	<b>Baht</b>
Deferred tax assets resulted from :		
Allowance for doubtful accounts of premium due and uncollected	2,075,692	1,729,743
Unearned premium reserve	34,940,488	40,089,227
Loss reserve - net	52,073,344	58,114,544
Incurred but not reported claims	6,966,030	6,489,690
Others	4,044,447	3,344,785
Allowance for impairment of general investment	8,505,095	7,087,579
Total deferred tax assets	<u>108,605,096</u>	<u>116,855,568</u>
Deferred tax liabilities resulted from :		
Unrealized gain on the change in value of investment		
- securities available for sale	116,074,998	28,946,946
Unrealized gain on transfer of investment - general investment	7,408,536	6,173,780
Total deferred tax liabilities	<u>123,483,534</u>	<u>35,120,726</u>

Deferred tax assets for net loss reserve as of December 31, 2007 and 2006, amounting to Baht 52.07 million and Baht 58.11 million, respectively, resulted from providing for loss reserves being a non-deductible expense in the calculation of corporate income tax, according to the letter from The General Insurance Association dated May 27, 2005, which was the result of a discussion with the Revenue Department by The General Insurance Association on such matter.



## 19. DIVIDENDS

- 19.1 On April 24, 2006, the ordinary shareholders' meeting passed a resolution to pay an annual dividend for the year 2005 of Baht 1.10 per share. The Company had paid an interim dividend for the operating result from January 1, to June 30, 2005 at Baht 0.45 per share, which was paid on September 30, 2005. The remaining portion of the annual dividend of Baht 0.65 per share, which was paid from the second half of year 2005 operating result and unappropriated retained earnings for 250 million shares, totaling Baht 162.5 million, was paid on May 2, 2006.
- 19.2 On August 25, 2006, the board of directors' meeting passed a resolution to pay an interim dividend for the operating result from January 1, to June 30, 2006 for 250 million shares, at Baht 0.65 per share, totaling Baht 162.5 million. The Company paid such dividend on September 21, 2006.
- 19.3 On April 5, 2007, the ordinary shareholders' meeting passed a resolution to pay an annual dividend for the year 2006 of Baht 1.40 per share. The Company had paid an interim dividend for the operating result from January 1, to June 30, 2006 at Baht 0.65 per share, which was paid on September 21, 2006. The remaining portion of the annual dividend of Baht 0.75 per share, which was paid from the second half of year 2006 operating result for 250 million shares, totaling Baht 187.5 million, was paid on April 12, 2007.
- 19.4 On August 17, 2007, the board of directors' meeting passed a resolution to pay an interim dividend for the operating result from January 1, to June 30, 2007 for 250 million shares, at Baht 0.65 per share, totaling Baht 162.5 million. The Company paid such dividend on September 14, 2007.

## 20. OTHER INCOME

For the year ended December 31, 2006, other income included compensation of Baht 16.42 million received from a former shareholder of the Company as reimbursement for a portion of expatriate expenses previously paid by the Company.

## 21. TRANSACTIONS WITH RELATED PARTIES

A portion of the Company's assets, liabilities, revenues and expenses arose from transactions with related parties. The relationship may be by shareholding or the companies may have the same group of shareholders or directors. The Company's management believes that the Company has no significant influence over the related parties. The accompanying financial statements reflect the effects of these transactions determined on the basis of commitments and conditions as in the normal course of business. Transactions with the related parties are mainly as follows:



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## 21.1 Investments

As at December 31, 2007

Companies	Type of Business	Relationship	Paid-up share capital Baht	Share holding %	Investment Baht	Dividend Baht
<b>Investment - ordinary shares</b>						
Bank of Ayudhya Plc.	Finance	Some common shareholders and directors	7,477,468,400	0.08	112,018,000	3,676,592
Ayudhya Securities Plc.	Finance	Some common shareholders and directors	600,000,000	0.43	3,166,660	-
Param 9 Square Co., Ltd.	Service	Some common shareholders	875,000,000	10.00	62,202,493	-
Sunrise Equity Co., Ltd.	Consulting	Some common shareholders	9,970,000,000	5.48	546,136,660	46,421,616
Siam City Cement Plc.	Manufacturing	Some common shareholders and directors	2,375,000,000	1.04	629,401,600	56,826,700
Thai Reinsurance Plc.	Reinsurance	Some common shareholders and directors	1,187,354,940	1.77	128,118,300	7,561,080
Ayudhya Allianz C.P. Life Plc.	Life Insurance	Some common shareholders and directors	2,950,000,000	5.82	217,144,558	5,835,413
					<u>1,698,188,271</u>	<u>120,321,401</u>
Companies	Type of Business	Relationship			Investment Baht	Dividend Baht
<b>Investment - unit trusts</b>						
Unit trusts managed by						
Ayudhya Fund Management Co., Ltd.	Fund Management	Some common shareholders				
- AYF Star Income Fund					-	2,044,296
- AYF Medium Term Fixed Income Dividend Fund (Formerly AYF Taweemongkol Fund )					443,961,295	21,966,358
- AYF Star Capital Fund					-	8,604,280
- AYF Cash Plus Fund					240,302,400	-
- AYF Sang Kamrai Fund					33,669,634	-
- AYF Medium Term Fixed Income Fund					113,000,553	-
- AYF Dividend Stock Fund					22,057,600	1,600,000
					<u>852,991,482</u>	<u>34,244,934</u>
PrimaVest Asset Management Co., Ltd.	Fund Management	Some common shareholders				
- PrimaVest Flexible Fund					108,523,316	7,520,895
- PrimaVest Equity Dividend Fund (Formerly PrimaVest Flexible Fund 2)					8,961,736	757,794
- PrimaVest Fixed Income Fund					20,291,730	-
- Krungsri - PrimaVest Value Fund					8,571,072	-
- Krungsri - PrimaVest Equity Fund					12,872,280	700,000
- Krungsri - PrimaVest Money Fund					110,489,527	-
- PrimaVest (Thailand) Oriental Income Fund					32,462,673	-
- PrimaVest (Thailand) Global High Payout Fund					19,813,596	-
					<u>321,985,930</u>	<u>8,978,689</u>
Companies	Type of Business	Relationship			Investment Baht	
<b>Investment - notes</b>						
Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders			292,724,102	



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As at December 31, 2006

Companies	Type of Business	Relationship	Paid-up share capital Baht	Share holding %	Investment Baht	Dividend Baht
<b>Investment - ordinary shares</b>						
Bank of Ayudhya Plc.	Finance	Some common shareholders and directors	29,408,124,750	0.63	338,246,501	7,353,185
Ayudhya Auto Lease Plc.	Service	Some common shareholders and directors	2,850,000,000	0.52	7,950,514	-
Ayudhya Securities Plc.	Finance	Some common shareholders and directors	600,000,000	0.43	3,166,660	-
Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders and directors	705,000,000	-	-	3,000,000
Praram 9 Square Co., Ltd.	Service	Some common shareholders and directors	750,000,000	10.00	49,702,493	-
Sunrise Equity Co., Ltd.	Consulting	Some common shareholders and directors	9,970,000,000	5.48	546,136,660	43,690,933
Ploenchit Advisory Co., Ltd.	Consulting	Some common shareholders	40,000,000	-	-	301,898
Siam City Cement Plc.	Manufacturing	Some common shareholders and directors	2,500,000,000	1.63	1,033,475,200	56,963,200
Thai Reinsurance Plc.	Reinsurance	Some common shareholders and directors	1,187,354,940	1.77	111,315,900	7,561,080
Ayudhya Allianz C.P. Life Plc.	Life Insurance	Some common shareholders and directors	2,950,000,000	5.82	217,144,558	-
					<b>2,307,138,486</b>	<b>118,870,296</b>

Companies	Type of Business	Relationship	Investment Baht	Dividend Baht
<b>Investment - unit trusts</b>				
Unit trusts managed by				
Ayudhya Fund Management Co., Ltd.	Fund Management	Some common shareholders and directors		
- AYF Star Income Fund			174,334,130	4,455,549
- AYF Tawee Mongkol Fund			150,731,029	4,457,915
- AYF Star Capital Fund			50,317,829	9,499,125
- AYF Cash Management Fund			327,986,367	-
- AYF Sang Kamrai Fund			30,718,316	-
- AYF Flexible Fund			67,151,463	-
- AYF Medium Term Fixed Income Fund			100,129,544	-
			<b>901,368,678</b>	<b>18,412,589</b>
PrimaVest Asset Management Co., Ltd.	Fund Management	Some common shareholders and directors		
- PrimaVest Flexible Fund			111,095,615	9,900,952
- PrimaVest Flexible Fund 2			14,154,984	682,015
- AYS PrimaVest Flexible Fund			8,953,831	307,206
- PrimaVest Fixed Income Fund			41,655,438	-
- Krungsri - PrimaVest Income Fund			9,522,958	-
- Krungsri - PrimaVest Value Fund			8,446,410	-
- Krungsri - PrimaVest Equity Fund			17,720,200	1,240,000
- Krungsri - PrimaVest Money Fund			10,189,000	-
			<b>221,738,436</b>	<b>12,130,173</b>

Companies	Type of Business	Relationship	Investment Baht
<b>Investment - notes</b>			
Ayudhya Development Leasing Co., Ltd.	Service	Some common shareholders and directors	280,831,121



21.2 Significant balances and transactions are as follows:

	Relationship	Balances as at December 31,	
		2007 Baht	2006 Baht
Bank deposits			
Bank of Ayudhya Plc.	Some common shareholders and directors	51,274,285	331,440,481
Premium due and uncollected			
Ayudhya Auto Lease Plc.	Some common shareholders and directors	120,985	231,821
Ayudhya Securities Plc.	Some common shareholders and directors	141,025	724,494
Bank of Ayudhya Plc.	Some common shareholders and directors	10,100,065	5,102,462
Ayudhya Fund Management Co., Ltd.	Some common shareholders	113,863	118,941
Bangkok Broadcasting & T.V. Co., Ltd.	Some common shareholders and directors	1,816,230	2,230,846
BBTV Equity Co., Ltd.	Some common shareholders	521,384	549,661
Siam City Cement Plc.	Some common shareholders and directors	532,675	460,881
PrimaVest Asset Management Co., Ltd.	Some common shareholders	-	698,282
Ayudhya Allianz C.P. Life Plc.	Some common shareholders and directors	455,457	568,580
Hyla (Thailand) Co., Ltd.	Some common shareholders and directors	14,360	11,357
Media of Medias Plc.	Some common shareholders and directors	183,538	43,199
		<u>13,999,582</u>	<u>10,740,524</u>
Accrued interest income			
Bank of Ayudhya Plc.	Some common shareholders and directors	397,288	930,771
Rental and facilities deposits			
BBTV Equity Co., Ltd.	Some common shareholders	3,943,943	3,943,943
Siam City Cement Plc.	Some common shareholders and directors	30,000	30,000
		<u>3,973,943</u>	<u>3,973,943</u>
Due to reinsurers			
Thai Reinsurance Plc.	Some common shareholders and directors	24,962,251	26,968,242
Bank overdrafts			
Bank of Ayudhya Plc.	Some common shareholders and directors	5,265,651	935,971
Financial lease liabilities			
Ayudhya Capital Lease Co., Ltd.	Some common shareholders	6,480,000	-
Accrued interest of financial lease			
Ayudhya Capital Lease Co., Ltd.	Some common shareholders	27,970	-
Accrued expense - management fee			
Ayudhya Securities Plc.	Some common shareholders and directors	37,234	33,494
Accrued expense - custodian fee			
Bank of Ayudhya Plc.	Some common shareholders and directors	2,276	1,969
Accrued operating expense			
Media of Medias Plc.	Some common shareholders and directors	875,000	-
Accrued expense – commissions and brokerages			
Bank of Ayudhya Plc.	Some common shareholders and directors	2,179,160	2,289,467
Accrued expense – other underwriting expenses			
Bank of Ayudhya Plc.	Some common shareholders and directors	1,211,389	-



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		Relationship	For the years ended	
			December 31,	
			2007	2006
			Baht	Baht
Premium written				
Ayudhya Development Leasing Co., Ltd.	Some common shareholders		98,152	116,861
Ayudhya Auto Lease Plc.	Some common shareholders and directors		122,093	242,346
Ayudhya Securities Plc.	Some common shareholders and directors		196,273	901,140
Bank of Ayudhya Plc.	Some common shareholders and directors		48,891,559	44,667,596
Ayudhya Fund Management Co., Ltd.	Some common shareholders		1,438,916	1,730,145
Bangkok Broadcasting & T.V. Co., Ltd.	Some common shareholders and directors		5,376,525	5,717,732
Super Assets Co., Ltd.	Some common shareholders		109,300	159,859
BBTV Equity Co., Ltd.	Some common shareholders		1,032,325	1,085,485
Siam City Cement Plc.	Some common shareholders and directors		54,959,141	76,498,920
CKS Holding Co., Ltd.	Some common shareholders		53,704	40,414
Great Luck Equity Co., Ltd.	Some common shareholders		74,772	78,723
Thai Reinsurance Plc.	Some common shareholders and directors		22,218,548	22,229,624
PrimaVest Asset Management Co., Ltd.	Some common shareholders		904,445	691,246
Ayudhya Allianz C.P. Life Plc.	Some common shareholders and directors		1,168,815	1,199,899
Hyla (Thailand) Co., Ltd.	Some common shareholders and directors		17,195	14,953
Nirvana Co., Ltd.	Some common shareholders and directors		299	-
Media of Medias Plc.	Some common shareholders and directors		583,965	56,840
Ayudhya Capital Lease Co., Ltd.	Some common shareholders		25,456	-
			<u>137,271,483</u>	<u>155,431,783</u>
Premium ceded				
Thai Reinsurance Plc.	Some common shareholders and directors		172,032,004	137,735,721

The Company uses the same pricing policy and conditions for the above premiums as it does for other customers and other insurance companies.

		Relationship	For the years ended	
			December 31,	
			2007	2006
			Baht	Baht
Commissions and brokerages				
Bank of Ayudhya Plc.	Some common shareholders and directors		27,732,899	11,506,847
Other underwriting expenses				
Bank of Ayudhya Plc.	Some common shareholders and directors		17,872,265	499,888

Commissions and brokerages were paid on the basis of the commission rate that the Company has offered to other insurance broker companies. Other underwriting expenses are conditions as agreed upon by the Company and related party.

		Relationship	For the years ended	
			December 31,	
			2007	2006
			Baht	Baht
Interest income				
Ayudhya Development Leasing Co., Ltd.	Some common shareholders		11,892,981	11,892,981
Bank of Ayudhya Plc.	Some common shareholders and directors		4,383,851	2,255,330
			<u>16,276,832</u>	<u>14,148,311</u>
Interest expense				
Bank of Ayudhya Plc.	Some common shareholders and directors		4,746	13,189
Ayudhya Capital Lease Co., Ltd.	Some common shareholders		27,970	-
			<u>32,716</u>	<u>13,189</u>

Interest is charged at the same interest rates as the bank offers to other insurance companies. For the interest rates charged by other related parties, the rates are the same as they charge other customers.



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	Relationship	For the years ended	
		December 31, 2007	2006
		Baht	Baht
Commission paid			
Ayudhya Securities Plc.	Some common shareholders and directors	2,065,736	89,076
Ayudhya Fund Management Co., Ltd.	Some common shareholders	243,673	61,962
PrimaVest Asset Management Co., Ltd.	Some common shareholders	335,727	-
		<u>2,645,136</u>	<u>151,038</u>
Management fee			
Ayudhya Securities Plc.	Some common shareholders and directors	437,444	89,338
Custodian fee			
Bank of Ayudhya Plc.	Some common shareholders and directors	26,368	5,321
Other operating expenses			
Hyla (Thailand) Co., Ltd.	Some common shareholders and directors	51,069	12,410
Media of Medias Plc.	Some common shareholders and directors	3,500,000	-
Nirvana Co., Ltd.	Some common shareholders and directors	210,000	216,600
		<u>3,761,069</u>	<u>229,010</u>

Commission, management fee, custodian fee and other operating expenses were paid at the same rates and conditions as the related party charge the other customers.

	Relationship	For the years ended	
		December 31, 2007	2006
		Baht	Baht
Office equipment			
Hyla (Thailand) Co., Ltd.	Some common shareholders and directors	43,300	5,100

The Company had purchases office equipment at the price and conditions that the related party has charged to other customers.

	Relationship	Rate of rental and service		For the years ended	
		expenses per month		December 31,	
		2007	2006	2007	2006
		Baht	Baht	Baht	Baht
Rental and service expenses					
BBTV Equity Co., Ltd.	Some common shareholders	1,004,050	1,004,050	12,048,600	12,048,600
Siam City Cement Plc.	Some common shareholders and directors	10,000	10,000	120,000	120,000

The Company has office rental, equipment rental and service agreements with related companies for a term of 3 years. The rental rates and conditions are the same as the related parties offer to other companies.



## 22. DISCLOSURE OF FINANCIAL INSTRUMENTS

The Company does not speculate or engage in the trading of any derivative financial instruments.

### 22.1 Accounting policies

Details of significant accounting policies and methods adopted, including criteria for recognition of revenues and expenses relating to financial assets and financial liabilities are disclosed in Note 2.

### 22.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy to protect against credit risk by having securities valuations strictly appraised by specialists and limiting lines of loans so as not to exceed the securities value which is in accordance with the Department of Insurance regulation related to investment for other business of non-life companies.

In the case of recognized financial assets in the balance sheet, the carrying amount of the assets recorded in the balance sheet represents the Company maximum exposure to credit risk.

### 22.3 Interest rate risk

Interest rate risk refers to the risk changes in interest rates will affect the interest income from investments. The Company's investments include both short-term and long-term investments that have floating rate and fixed rates. The Company manages the risk by considering the risk of investments together with the return on such investments.

As at December 31, 2007 and 2006, significant financial assets classified by type of interest rate are as follows:

	Balance as at December 31,			
	2007		2006	
	Variable interest rate	Fixed interest rate	Variable interest rate	Fixed interest rate
	Baht	Baht	Baht	Baht
Investment in securities - net				
Bonds	-	150,329,592	-	117,009,224
Treasury bills	-	898,485,841	-	327,865,788
Notes	40,000,000	596,029,633	51,500,000	453,932,507
Debentures	-	130,000,000	-	-
Cash and deposits at financial institutions	133,196,655	345,716,671	197,942,844	504,931,639
Total	<u>173,196,655</u>	<u>2,120,561,737</u>	<u>249,442,844</u>	<u>1,403,739,158</u>



The financial instruments carrying interest at fixed rates are classified below on the basis of the length of time from the balance sheet date to the date specified for the fixing of a new rate, or to the maturity date (whichever is sooner) as follows:

**As at December 31, 2007**

	Period specified for fixing new interest rate			Average interest rate %
	Within 1 year	Over 1 year	Total	
	Baht	Baht	Baht	
Investment in securities - net				
Bonds	109,868,522	40,461,070	150,329,592	4.59
Treasury bills	898,485,841	-	898,485,841	3.05
Notes	596,029,633	-	596,029,633	3.82
Debentures	-	130,000,000	130,000,000	4.47
Cash and deposits at financial institutions	345,716,671	-	345,716,671	2.86
Total	<u>1,950,100,667</u>	<u>170,461,070</u>	<u>2,120,561,737</u>	

**As at December 31, 2006**

	Period specified for fixing new interest rate			Average interest rate %
	Within 1 year	Over 1 year	Total	
	Baht	Baht	Baht	
Investment in securities - net				
Bonds	-	117,009,224	117,009,224	4.88
Treasury bills	327,865,788	-	327,865,788	4.80
Notes	179,862,127	274,070,380	453,932,507	4.61
Cash and deposits at financial institutions	504,931,639	-	504,931,639	4.78
Total	<u>1,012,659,554</u>	<u>391,079,604</u>	<u>1,403,739,158</u>	

**22.4 Estimated fair value of financial instruments**

The fair values have been estimated by the Company using available market information and appropriate valuation methodologies.

As at December 31, 2007 and 2006, the carrying amounts of financial assets and financial liabilities which were different from the estimated fair value were as follows:

	2007		2006	
	Carrying Value Baht	Fair Value Baht	Carrying Value Baht	Fair Value Baht
Financial assets				
Cash and deposits at financial institutions	486,472,226	486,385,756	705,727,853	705,333,199
Stocks	1,853,014,728	2,441,713,304	2,419,223,751	3,336,712,104
Other securities - unit trusts	2,045,833,610	2,046,158,217	1,890,190,987	1,890,512,200



The following methods and assumptions were used by the Company in estimating fair value of financial instruments as disclosed herein:

Financial assets - The fair values of financial assets for which their remaining terms to maturity are within 90 days are based on carrying value. For those with remaining terms to maturity greater than 90 days are estimated by using a discounted cash flow analysis based on current interest rates for the remaining years to maturity, except for the fair values of stocks and other securities classified as available for sales securities which are based on the bidding prices at the Stock Exchange of Thailand on the last business day of the year. For non-listed securities, the fair values are estimated based on either net asset value or carrying value.

Financial liabilities - The fair values of financial liabilities for which their remaining terms to maturity are within 90 days are based on carrying value. For those with remaining terms to maturity greater than 90 days are estimated by using a discounted cash flow analysis based on current interest rates for the remaining years to maturity.

### **23. AUTHORIZATION OF FINANCIAL STATEMENTS**

These financial statements were approved for issuance by the Company's authorized executive directors on February 14, 2008.