

## X. ACCOUNTANTS' REPORT



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24 December 2004

Dear Sirs

### **Kurnia Asia Berhad ("KAB" or "Company") Accountants' Report**

This report has been prepared by Messrs. KPMG, an approved company auditor, for inclusion in the Prospectus to be dated 30 December 2004 in connection with the following:

- i) Share split by KAB to split every one (1) ordinary share of RM1.00 each in KAB into four (4) ordinary shares of RM0.25 each in KAB;
- ii) Acquisition by KAB of the entire issued and paid-up share capital of Kurnia Insurans (Malaysia) Berhad ("KIMB") comprising of 200,000,000 ordinary shares of RM1.00 each (after the payment of a net final dividend by KIMB in respect of financial year ended 30 June 2004 amounting to RM75 million) for a purchase consideration of RM328,007,000, fully satisfied by the issuance of 1,312,028,000 new ordinary shares of RM0.25 each at par in KAB;
- iii) Non-renounceable rights issue of 187,971,992 new ordinary shares of RM0.25 each at an issue price of RM0.33 per ordinary share to the shareholders of KAB;
- iv) Reduction of the enlarged issued and paid-up share capital of Kurnia Damai Sdn. Bhd. ("KDSB"), the shareholder of KAB, for the purpose of distributing a total of 1,499,999,258 ordinary shares of RM0.25 each in KAB to KDSB's shareholders;
- v) Offer for sale of 543,000,000 ordinary shares of RM0.25 each at an offer price of RM1.00 each to eligible Directors, employees and registered agents of KAB and its subsidiary ("Kurnia Group" or "Group") in Malaysia, the Malaysian public investors; Bumiputera investors approved by the Ministry of Finance and institutional as well as identified investors, and
- vi) Listing of and quotation for the entire enlarged issued and paid up share capital of KAB comprising 1,500,000,000 ordinary shares of RM0.25 each on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

**X. ACCOUNTANTS' REPORT (CONT'D)**

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**1 General information**

**1.1 Background**

KAB was incorporated in Malaysia on 16 February 2001 as a private limited company under the Companies Act, 1965 under the name of Kurnia Asia Sdn. Bhd.. The Company converted its status to a public limited company on 21 November 2002 for the purpose of the listing exercise as detailed in Note 1.3 and has since assumed its present name.

The principal activity of KAB is that of investment holding.

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**X. ACCOUNTANTS' REPORT (CONT'D)****1.2 Share capital**

As at the date of incorporation, KAB's authorised share capital was RM100,000 consisting of 100,000 ordinary shares of RM1.00 each. At that date, its issued and paid-up share capital was RM2 consisting of 2 subscribers' shares of RM1.00 each.

At the date of this report, the authorised share capital of KAB comprised of 5,000,000,000 ordinary shares of RM0.25 each amounting to RM1,250,000,000. The issued and paid-up share capital of KAB is RM375,000,000 consisting of 1,500,000,000 ordinary shares of RM0.25 each.

The details of the changes in the authorised share capital of KAB since its incorporation are as follows:

Date of creation	Number of ordinary shares	Par value RM	Cumulative authorised share capital RM
Upon incorporation	100,000	1.00	100,000
02.08.2004	Share split of one existing share into four	0.25	100,000
02.08.2004	4,999,600,000	0.25	1,250,000,000

The details of the changes in the issued and fully paid-up share capital of KAB since its incorporation are as follows:

Date of allotment	Number of ordinary shares	Par value RM	Consideration/Type of issue	Total issued and fully paid-up share capital (cumulative) RM
Upon incorporation	2	1.00	Cash/Subscribers' shares	2
02.08.2004	8	0.25	Share split	2
05.11.2004	1,312,028,000	0.25	Issued pursuant to the acquisition of KIMB	328,007,002
6/17.11.2004	187,971,992	0.25	Non-renounceable rights issue	375,000,000

*Note:*

*The non-renounceable rights issue shares were issued to KDSB and Datuk Kua Sian Kooi on 6 November 2004 and 17 November 2004 respectively.*

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**1.3 Listing scheme**

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of KAB on the Main Board of Bursa Securities, KAB undertook the following:

- i. Share split by KAB to split every one (1) ordinary share of RM1.00 each in KAB into four (4) ordinary shares of RM0.25 each in KAB;
- ii. Acquisition by KAB of the entire issued and paid-up share capital of KIMB comprising of 200,000,000 ordinary shares of RM1.00 each (after the payment of a net final dividend by KIMB in respect of financial year ended 30 June 2004 amounting to RM75 million) for a purchase consideration of RM328,007,000, fully satisfied by the issuance of 1,312,028,000 new ordinary shares of RM0.25 each at par in KAB;
- iii. Non-renounceable rights issue of 187,971,992 new ordinary shares of RM0.25 each at an issue price of RM0.33 per ordinary share to the shareholders of KAB;
- iv. Reduction of the enlarged issued and paid-up share capital of KDSB, the shareholder of KAB, for the purpose of distributing a total of 1,499,999,258 ordinary shares of RM0.25 each in KAB to KDSB's shareholders;
- v. Offer for sale of 543,000,000 ordinary shares of RM0.25 each at an offer price of RM1.00 each to eligible Directors, employees and registered agents of the Kurnia Group in Malaysia, the Malaysian public investors, Bumiputera investors approved by the Ministry of Finance and institutional as well as identified investors, and
- vi. Listing of and quotation for the entire enlarged issued and paid up share capital of KAB comprising 1,500,000,000 ordinary shares of RM0.25 each on the Main Board of Bursa Securities.

(Collectively referred herein as the "Listing Scheme")

**X. ACCOUNTANTS' REPORT (CONT'D)****1.4 Information on subsidiary**

As at the date of this report, the Kurnia Group comprises of KAB and its subsidiary, KIMB which is incorporated in Malaysia as a public limited company under the Companies Act, 1965. KAB completed the acquisition of the entire ordinary share capital of KIMB via the issuance of 1,312,028,000 ordinary shares of RM0.25 each on 5 November 2004. The details of KIMB at the date of this report and its principal activity are as follows.

Company	Date of incorporation	Authorised share capital RM'000	Issued and paid-up RM'000	Effective interest %	Principal activity
Kurnia Insurans (Malaysia) Berhad ("KIMB")	30.12.1978	300,000	200,000	100	Underwriting of general insurance

**1.5 Audited financial statements and auditors**

The financial year end of the Kurnia Group is 30 June. Set out below is a summary of the financial period/years under review for which the results and financial position have been presented in this report; the names of auditors for such period/years are also indicated:

Company	Period/year end	Auditors
KAB	16 February 2001 (date of incorporation) to 30 June 2002 and year ended 30 June 2003 Year ended 30 June 2004	Wong Weng Foo & Co KPMG
KIMB	Years ended 30 June 2000 to 2004	KPMG

The financial statements for the period/years under review as shown above were reported upon by the respective auditors without any qualification.

**X. ACCOUNTANTS' REPORT (CONT'D)****1.5 Audited financial statements and auditors (continued)****Reclassification of balances**

The following balance sheet items of KIMB have been reclassified in the respective financial years to conform with the current presentation:-

	As previously stated RM'000	Effects of reclassification RM'000	As restated RM'000
Reclassification of freehold land from property and equipment to investment property in investment for the financial year ended 30 June 2001.			
Freehold land	20,985	(7,500)	13,485
Investment property	-	7,500	7,500

Reclassification of loan stock of a statutory body from investment to other receivables for the financial years ended 30 June 2000 to 2001.

## Investment in loan stock of a statutory body

- financial year ended 2000	100	(100)	-
- financial year ended 2001	200	(200)	-

## Other receivables

- financial year ended 2000	29,089	100	29,189
- financial year ended 2001	36,074	200	36,274

Reclassification of Malaysia National Reinsurance Berhad retrocession's claims from trade payables to provision for outstanding claims for the financial year ended 30 June 2000.

Provision for outstanding claims	438,496	21,746	460,242
Trade payables	34,116	(21,746)	12,370

**X. ACCOUNTANTS' REPORT (CONT'D)****1.5 Audited financial statements and auditors (continued)**

The following revenue account items of KIMB have been reclassified in the respective financial years to conform with current presentation:-

	As previously stated RM'000	Effects of reclassification RM'000	As restated RM'000
Reclassification of allowance for doubtful debts from other expenditure to management expenses for the financial years ended 30 June 2000 to 2001.			
Management expenses			
- financial year ended 2000	98,599	543	99,142
- financial year ended 2001	112,889	6,862	119,751
Bad and doubtful debts			
- financial year ended 2000	543	(543)	-
- financial year ended 2001	6,862	(6,862)	-
Reclassification of net accretion of discounts/amortisation of premiums from other income/ (expenditure) to investment income for the financial years ended 30 June 2000 to 2001.			
Investment income			
- financial year ended 2000	31,473	(188)	31,285
- financial year ended 2001	36,705	2,670	39,375
Other income/(expenditure)-net			
- financial year ended 2000	9,570	188	9,758
- financial year ended 2001	(15,747)	(2,670)	(18,417)

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**1.6 Dividend**

KAB has not declared or paid any dividend since its incorporation.

Details of dividends paid by KIMB for the relevant financial years under review are as follows:

<b>Financial year</b>	<b>Gross dividend rate %</b>	<b>Net dividend paid RM'000</b>
30 June 2000	20.0	30,000
30 June 2002	48.6	70,000
30 June 2003	48.6	70,000
30 June 2004	52.1	75,000

**1.7 Accounting Policies and Standards**

The accounting policies adopted in the preparation of this report are set out in Section 3.1 and are consistent with the accounting policies normally adopted by KIMB and the accounting policy for consolidation adopted by KAB as set out in Section 3.1.3.

The financial information presented in this Report is based on the audited financial statements of KAB and its subsidiary, which have been prepared by the Directors in accordance with applicable approved accounting standards in Malaysia.

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**X. ACCOUNTANTS' REPORT (CONT'D)****2 Financial performance****2.1 Proforma consolidated results of the Kurnia Group**

We set out below the summarised proforma consolidated results of the Kurnia Group for the past five (5) financial years ended 30 June 2000 to 2004. The proforma results are prepared for illustrative purposes only and are based on the audited financial statements of KAB and KIMB for the relevant financial years, on the assumption that the Kurnia Group under the Listing Scheme, as detailed in Section 1.3, was effective throughout the years under review and after making necessary adjustments as disclosed in Section 1.5.

The following results are to be read in conjunction with the notes thereto:

	<----- Year Ended 30 June ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Operating revenue	602,160	743,784	917,739	995,339	1,110,338
Surplus transferred from Insurance Revenue account	88,261	87,770	154,139	166,167	120,280
Administrative expenses	-	-	-	-	(5)
Profit from operations before taxation	88,261	87,770	154,139	166,167	120,275
Tax expense	(29,000)	(21,540)	(47,979)	(47,503)	(35,524)
Net profit for the year	59,261	66,230	106,160	118,664	84,751
Number of ordinary shares of RM0.25 each in issue ('000)	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Effective tax rate (%)	33	25	31	29	30
Pre-tax profit margin (%)	18	14	21	20	13
Earnings per ordinary share (sen) – gross	5.9	5.9	10.3	11.1	8.0
– net	4.0	4.4	7.1	7.9	5.7

**X. ACCOUNTANTS' REPORT (CONT'D)****2.1 Proforma consolidated results (continued)****General insurance revenue account**

	< ----- Year ended 30 June ----- >				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium	570,875	704,409	873,737	951,497	1,056,291
Less: Reinsurance	(48,375)	(54,155)	(84,330)	(87,302)	(92,522)
Net premium	522,500	650,254	789,407	864,195	963,769
Increase in unearned premium reserves	(42,061)	(41,972)	(58,688)	(27,340)	(65,631)
Earned premium	480,439	608,282	730,719	836,855	898,138
Net claims incurred	(273,337)	(347,936)	(428,800)	(480,318)	(610,864)
Net commission	(60,742)	(73,783)	(86,467)	(93,434)	(93,952)
Underwriting surplus before management expenses	146,360	186,563	215,452	263,103	193,322
Management expenses	(99,142)	(119,751)	(141,247)	(159,516)	(162,374)
Underwriting surplus	47,218	66,812	74,205	103,587	30,948
Investment Income	31,285	39,375	44,002	43,842	54,047
Other income /(expenditure)-net	9,758	(18,417)	35,932	18,738	35,285
Transfer to income statement	88,261	87,770	154,139	166,167	120,280

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**2.1 Proforma consolidated results (continued)**

Notes:-

- i) *The number of ordinary shares that was assumed in issue throughout the financial years under review is the number of ordinary shares in issue after the implementation of the share split, acquisition of KIMB by KAB and non-renounceable rights issue.*
- ii) *The pre-tax profit margin is computed based on earned premiums for the respective financial years under review.*
- iii) *Gross and net earnings per share are calculated based on the profit before and after taxation respectively and divided by the assumed number of ordinary shares in issue.*
- iv) *The effective tax rate of the Group ranged from 25% to 33% for the years under review. The effective tax rate for the financial years ended 30 June 2000, 2002, 2003 and 2004 were higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.*
- v) *There were no exceptional or extraordinary items during the financial years under review, except in financial year ended 30 June 2004. During the financial year ended 30 June 2004, included in the increase in incurred but not reported ("IBNR") charge for 2004 of RM167 million was approximately RM87 million for additional provisions made for previous years. The IBNR charge of RM167 million is included in the caption of Net Claims Incurred shown in the general insurance revenue account. The said additional provision had resulted from the changes in the projected numbers of cases made by the independent actuary based on actual development of claims pattern that become more obvious during the 2004 financial year.*
- vi) *The amortisation charged on goodwill for the financial years ended 2001 to 2003 and the impairment loss on goodwill for the financial year ended 2004 as reported in KIMB's Income Statement set out in Section 2.4.1 was excluded in deriving the proforma consolidated results of Kurnia Group. This is because under the Listing Scheme, KAB had acquired KIMB at the net tangible asset value (which excluded purchased goodwill carried in KIMB's books) of KIMB as at 30 June 2003. Therefore, there should not be any financial effect to the Proforma Group results for this goodwill charge/write off.*

**X. ACCOUNTANTS' REPORT (CONT'D)****2.2 The Proforma Kurnia Group Balance Sheets**

The proforma consolidated balance sheet on the Kurnia Group has been presented as at 30 June 2004 based on the latest audited statement of assets and liabilities as at 30 June 2004 as set out in Section 3 of this Report.

No proforma balance sheets of the Kurnia Group was prepared for the financial years from 2000 to 2004 as the Group was only formed on 5 November 2004.

**2.3 KAB****Financial performance**

The following financial information of KAB was extracted from the audited financial statements of KAB for the financial period from 16 February 2001 (date of incorporation) to 30 June 2002, financial years ended 30 June 2003 and 2004.

**2.3.1 Summary of results**

	<---- Period/year ended 30 June ---->		
	2002	2003	2004
	RM	RM	RM
Loss before and after taxation	-	-	(5)
Number of ordinary shares of RM0.25 each in issue at period/year end*	8	8	8

*Notes:*

- i) *No income statement was prepared for the period ended 30 June 2002 and year ended 30 June 2003 as KAB had not commenced operations since its incorporation on 16 February 2001. The loss for the year ended 2004 was mainly due to administrative expenses incurred.*
  - ii) *There were no extraordinary or exceptional items for the financial period/years under review.*
- \* *This has taken into account effect of share split of each RM1.00 ordinary share into 4 ordinary shares of RM0.25 each.*

**X. ACCOUNTANTS' REPORT (CONT'D)****2.3.2 Summarised balance sheets**

	<----- As at 30 June ----->		
	2002	2003	2004
	RM	RM	RM
Current assets	1,432	2,443	2
Less: Current liabilities	(1,430)	(2,441)	(5,441)
Net current liabilities	2	2	(5,439)
Represented by:			
Share capital	2	2	2
Accumulated losses	-	-	(5,441)
	2	2	(5,439)
Number of ordinary shares of RM0.25 each in issue at period/year end*	8	8	8
Net tangible asset ("NTA")/ (liabilities) (RM)	2	2	(5,439)
NTA/ (liabilities) per ordinary share (RM)	0.25	0.25	(680)

*Note:*

\* This has taken into account effect of share split of each RM1.00 ordinary share into 4 ordinary shares of RM0.25 each.

**X. ACCOUNTANTS' REPORT (CONT'D)****2.4 KIMB****Historical performance**

The following financial information of KIMB was extracted from the audited financial statements of KIMB for the financial years ended 30 June 2000 to 2004.

**2.4.1 Summary of results**

	←----- Year Ended 30 June ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Operating revenue	602,160	743,784	917,739	995,339	1,110,338
Surplus from Insurance					
Revenue account	88,261	87,770	154,139	166,167	120,280
Amortisation of goodwill	-	(1,385)	(1,662)	(1,403)	-
Impairment loss on goodwill	-	-	-	-	(31,104)
Profit from operations before taxation	88,261	86,385	152,477	164,764	89,176
Tax expense	(29,000)	(21,540)	(47,979)	(47,503)	(35,524)
Net profit for the year	59,261	64,845	104,498	117,261	53,652
Number of ordinary shares of RM1.00 each in issue ('000)	150,000	200,000	200,000	200,000	200,000
Effective tax rate (%)	33	25	31	29	40
Pre-tax profit margin (%)	18	14	21	20	10
Earnings per ordinary share (sen) – gross	59	43	76	82	45
– net	40	32	52	59	27

**X. ACCOUNTANTS' REPORT (CONT'D)****2.4.2 Summarised general insurance revenue account**

	< ----- Year ended 30 June ----- >				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross premium	570,875	704,409	873,737	951,497	1,056,291
Less: Reinsurance	(48,375)	(54,155)	(84,330)	(87,302)	(92,522)
Net premium	522,500	650,254	789,407	864,195	963,769
Increase in unearned premium reserves	(42,061)	(41,972)	(58,688)	(27,340)	(65,631)
Earned premium	480,439	608,282	730,719	836,855	898,138
Net claims incurred	(273,337)	(347,936)	(428,800)	(480,318)	(610,864)
Net commission	(60,742)	(73,783)	(86,467)	(93,434)	(93,952)
Underwriting surplus before management expenses	146,360	186,563	215,452	263,103	193,322
Management expenses	(99,142)	(119,751)	(141,247)	(159,516)	(162,374)
Underwriting surplus	47,218	66,812	74,205	103,587	30,948
Investment Income	31,285	39,375	44,002	43,842	54,047
Other income / (expenditure)-net	9,758	(18,417)	35,932	18,738	35,285
Transfer to income statement	88,261	87,770	154,139	166,167	120,280

- i) *The pre-tax profit margin is computed based on earned premiums for the respective financial years under review.*
- ii) *Gross and net earnings per share are calculated based on the profit before and after taxation respectively and divided by the number of ordinary shares in issue.*
- iii) *The effective tax rate of KIMB ranged from 25% to 40% for the years under review. The effective tax rate for the financial years ended 30 June 2000, 2002, 2003 and 2004 were higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.*
- iv) *There were no exceptional or extraordinary items during the financial years under review, except in financial year ended 30 June 2004. During the financial year ended 30 June 2004, there was an impairment loss on goodwill charged amounting to approximately RM31 million and included in the IBNR charge for 2004 of RM167 million was, approximately, RM87 million for additional provisions made for previous years. The IBNR charge of RM167 million is included in the caption of Net Claims Incurred shown in the general insurance revenue account. The said additional provision had resulted from the changes in the projected numbers of cases made by the independent actuary based on actual development of claims pattern that become more obvious during the 2004 financial year.*

**X. ACCOUNTANTS' REPORT (CONT'D)****2.4.3 Summarised balance sheets**

	< ----- As at 30 June ----- >				
	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Assets</b>					
Property and equipment	181,726	223,771	245,633	245,437	241,394
Goodwill	-	40,169	32,507	31,104	-
Investments	757,852	840,459	989,019	1,015,802	1,281,564
Loans	8,583	9,347	12,863	15,923	19,525
Receivables	44,141	58,272	114,138	193,234	79,515
Tax recoverable	-	-	-	6,042	10,136
Cash and bank balances	17,547	35,138	28,991	19,025	34,336
<b>Total assets</b>	<b>1,009,849</b>	<b>1,207,156</b>	<b>1,423,151</b>	<b>1,526,567</b>	<b>1,666,470</b>
<b>Liabilities</b>					
Provision for outstanding claims	460,242	551,206	603,844	647,826	749,592
Payables	73,287	78,477	59,709	57,874	63,857
Provision for taxation	26,418	17,562	34,252	16,942	-
Staff retirement benefits	4,622	4,428	5,520	6,836	8,040
Deferred tax liability	3,302	3,302	4,459	7,121	5,730
<b>Total liabilities</b>	<b>567,871</b>	<b>654,975</b>	<b>707,784</b>	<b>736,599</b>	<b>827,219</b>
<b>Insurance reserves</b>					
Unearned premium reserves	229,471	274,829	333,517	360,857	426,488
<b>Shareholders' equity</b>					
Share capital	150,000	200,000	200,000	200,000	200,000
Reserves	62,507	77,352	181,850	229,111	212,763
	<b>212,507</b>	<b>277,352</b>	<b>381,850</b>	<b>429,111</b>	<b>412,763</b>
<b>Total liabilities and shareholders' equity</b>					
	<b>1,009,849</b>	<b>1,207,156</b>	<b>1,423,151</b>	<b>1,526,567</b>	<b>1,666,470</b>
<b>Net tangible assets ("NTA") (RM'000)</b>					
	212,507	237,183	349,343	398,007	412,763
<b>NTA per ordinary share (RM)</b>					
	1.42	1.19	1.75	1.99	2.06



**X. ACCOUNTANTS' REPORT (CONT'D)****3 Statement of assets and liabilities**

The following is a detailed statement of assets and liabilities of KAB and the Kurnia Group which have been prepared for illustrative purposes only and are based on the audited financial statements of KAB and its subsidiary company as at 30 June 2004.

The proforma statement of assets and liabilities of the Group have been prepared on the assumption that the Listing Scheme as detailed in Section 1.3 had been effected on 30 June 2004. These proforma statements should be read in conjunction with the accompanying notes thereto:

	<i>Note</i>	<b>Audited Company at 30.06.2004 RM'000</b>	<b>Proforma Group at 30.06.2004 RM'000</b>
<b>Assets</b>			
Property and equipment	3.2	-	241,394
Investments	3.3	-	1,206,564
Loans	3.4	-	19,525
Receivables	3.5	-	79,515
Tax recoverable		-	10,136
Cash and bank balances	3.6	-*	94,367
<b>Total assets</b>		<b>-*</b>	<b>1,651,501</b>
<b>Liabilities</b>			
Provision for outstanding claims	3.7	-	749,592
Payables	3.8	5	63,862
Staff retirement benefits	3.9	-	8,040
Deferred tax	3.10	-	5,730
<b>Total liabilities</b>		<b>5</b>	<b>827,224</b>
<b>Insurance reserves</b>			
Unearned premium reserves	3.12	-	426,488
<b>Shareholders' equity</b>			
Share capital	3.13	-*	375,000
Share premium	3.14	-	13,038
Accumulated losses		(5)	(5)
		(5)	388,033
<b>Negative goodwill</b>	3.11	-	9,756
<b>Total liabilities and shareholders' equity</b>		<b>-*</b>	<b>1,651,501</b>

\* Represents RM2.00.

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.1 Notes to the statement of assets and liabilities**

**3.1.1 Significant accounting policies**

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in previous years except as follows :

- a) Section 3.1.9 which was adopted in the financial year ended 30 June 2004 pursuant to adoption of Malaysian Accounting Standard Board 29, and
- b) Section 3.1.3 which was adopted in November 2004 for purposes of consolidating KIMB in the preparation of the proforma consolidated balance sheet.

**3.1.2 Basis of accounting**

The financial statements of the Group and the Company are prepared on the historical cost basis except as disclosed in the notes to the financial statements and in compliance with applicable approved accounting standards in Malaysia, the provisions of the Companies Act 1965, the Insurance Act 1996, Insurance Regulations 1996 and the Guidelines/Circulars issued by Bank Negara Malaysia (BNM) in all material aspects.

**3.1.3 Basis of consolidation**

Subsidiary companies are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiary companies are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the Proforma Group's financial statements. The difference between the acquisition cost and the fair values of the subsidiary companies' net assets is reflected as goodwill or negative goodwill as appropriate. Goodwill or negative goodwill is stated at cost less accumulated impairment loss, if any.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

**X. ACCOUNTANTS' REPORT (CONT'D)****3.1.4 Property, plant and equipment**

Freehold land and construction-in-progress are stated at cost. All other property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property and equipment retired from active use and held for disposal are stated at the carrying amount at the date when the asset is retired from active use, less impairment losses, if any.

***Depreciation***

Freehold land and construction-in-progress are not amortised. Leasehold land is amortised in equal instalments over the remaining period of the respective leases which ranges from forty-nine to ninety-three years while buildings are depreciated on a straight line basis over the shorter of 50 years or the lease period. The straight line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Freehold buildings	2%
Office improvements	10% - 33 $\frac{1}{3}$ %
Furniture and fittings	10%
Office equipment and computers	10% - 20%
Motor vehicles	20%

**3.1.5 Investments**

Investments in Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Zero Coupon Bonds, Islamic Government Guaranteed Bonds and other unquoted unsecured bonds that carry a minimum rating of BBB or P3 by rating agencies established in Malaysia and held to maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts to maturities. Premiums/discounts are calculated on a straight line basis over the period from the date of acquisition to the date of maturity of the securities. 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 quoted investment.

Diminution in value of a particular quoted 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, by writing down the cost of that quoted investment to the average median price for each month during that 24 month period.

All other unquoted investments are stated at the lower of cost and net realisable value.

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.1.6 Investment property**

Freehold land is stated at cost and includes related and incidental expenditure incurred less accumulated impairment losses, if any. Freehold land is not depreciated.

**3.1.7 Receivables**

Receivables are stated at cost less allowance for doubtful debts.

Known bad debts are written off and specific allowance for doubtful debts is made for any premiums including agents and reinsurance balances which remain outstanding for more than six months from the date on which they became receivable and for all debts which are considered doubtful.

**3.1.8 Impairment**

The carrying amount of the Group's and the Company's assets, other than tax recoverable, and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement/revenue account.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event. In respect of other assets, 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. The reversal is recognised in the income statement/revenue account.

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.1.9 Employee benefits****(i) Short term employee benefits**

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group and Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when such absences occur.

**(ii) Defined contribution plan**

Obligations for contributions to defined contribution plan are recognised as an expense in the revenue account as incurred.

**(iii) Defined benefit plan**

The Group's and Company's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of plan assets, if any, is deducted. The discount rate is the market yield at the balance sheet date on high quality corporate bonds or government bonds. The calculation is performed by an actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the revenue account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the revenue account.

In calculating the Group's and Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, if any, that portion is recognised in the revenue account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised

**3.1.10 Liabilities**

Payables are stated at cost.

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.1.11 Income tax**

Tax on the profit or loss for the year comprises current and deferred tax. Income tax 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 expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

**3.1.12 Foreign currency**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The closing rates as at 30 June 2004 used in the translation of foreign currency monetary assets and liabilities are as follows:

100BAHT      RM9.11

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.1.13 General insurance underwriting results**

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

**Premium income**

Premium is recognised in a financial year in respect of risks assumed during that particular financial year. Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

**Inward Treaty Business**

Underwriting results relating to reinsurance inward treaty transactions, regardless of the underwriting years to which they pertain, are included in current operations to the extent that such transactions are reported by the brokers and reinsurers in their statement of accounts received as at the end of the financial year.

**Unearned Premium Reserve**

The Unearned Premium Reserve (UPR) represent the portion of the net premiums of insurance policies written less deductible acquisition costs that relate to the unexpired period of the policies at the end of the financial year.

The method used to calculate UPR is as follows:

- (i) 25% method for marine and aviation cargo business.
- (ii) 1/24<sup>th</sup> method for all other classes of Malaysian general policies business.

**Provision for 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 the 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.

**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.

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.1.14 Other revenue recognition**

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 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.

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 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.

Dividend income represents gross dividends from quoted and unquoted investments and is recognised when the right to receive payment is established.

**3.1.15 Operating lease payments**

Payments made under operating leases are recognized in the revenue account on a straight line basis over the term of the leases.

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**X. ACCOUNTANTS' REPORT (CONT'D)****3.2 Property, plant and equipment**

<b>Proforma Group 2004</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Freehold land	15,470	-	15,470
Leasehold land	33,432	745	32,687
Freehold buildings	36,005	4,514	31,491
Leasehold buildings	98,275	5,652	92,623
Office improvements	13,722	6,723	6,999
Furniture and fittings	40,561	15,427	25,134
Office equipment and computers	65,209	32,096	33,113
Motor vehicles	13,743	10,972	2,771
Construction in progress	1,106	-	1,106
	<u>317,523</u>	<u>76,129</u>	<u>241,394</u>

**3.3 Investments**

	<b>Proforma Group 2004</b>
	<b>Cost RM'000</b>
Investment property, at cost	
Freehold land	7,500
	<u>-----</u>
Malaysian Government Securities	51,241
Amortisation of premiums	(2,022)
	<u>-----</u>
	49,219
	<u>-----</u>
Cagamas Bonds	165,169
Amortisation of premiums	(8)
	<u>-----</u>
	165,161
	<u>-----</u>
Zero Coupon Government Guaranteed Bonds	14,216
Accretion of discounts	3,180
	<u>-----</u>
	17,396
	<u>-----</u>

## X. ACCOUNTANTS' REPORT (CONT'D)



## 3.3 Investments (continued)

	Proforma Group 2004
	Cost RM'000
<i>Quoted in Malaysia:</i>	
Shares of corporations	241,799
Provision for impairment	(13)
	<u>241,786</u>
Unit trusts	17,012
Provision for impairment	(1,209)
	<u>15,803</u>
<i>Unquoted in Malaysia:</i>	
Secured Long Term Bonds	15,504
Amortisation of premiums net of accretion of discounts	(272)
	<u>15,232</u>
Unsecured Long Term Bonds	105,156
Amortisation of premiums net of accretion of discounts	(1,510)
	<u>103,646</u>
Secured short term loan	30,164
Shares of corporation	1,430
	<u>559,227</u>
Fixed and call deposits with:	
Licensed banks	203,632
Licensed finance companies	293,412
Other financial institutions	137,183
Less: Proforma adjustments to reflect payment of final dividend for financial year 2004	(75,000)
	<u>559,227</u>
Total Investments	<u><u>1,206,564</u></u>

## X. ACCOUNTANTS' REPORT (CONT'D)



## 3.4 Loans

	Proforma Group 2004 RM'000
Mortgage loans	18,492
Other secured loans	1,033
	<u>19,525</u>
	<u>10,177</u>

## 3.5 Receivables

	Proforma Group 2004 RM'000
<i>Trade receivables</i>	
Outstanding premium including agents/brokers balances	100,987
Allowance for doubtful debts	(45,244)
	<u>55,743</u>
Amount due from reinsurers/ceding companies and co-insurers	21,920
Allowance for doubtful debts	(16,784)
	5,136
<i>Other receivables</i>	
Other receivables, deposits and prepayments	18,436
Loan stock of a statutory body	200
	<u>79,515</u>

*Trade receivables*

Included in amount due from reinsurers/ceding companies balances are unreconciled differences of RM625,000 which constitute more than 2% of the carrying amount.

**X. ACCOUNTANTS' REPORT (CONT'D)****3.6 Cash and bank balances**

	<b>Proforma Group</b>
	<b>2004</b>
	<b>RM'000</b>
Audited balance at 30 June 2004	*
Arising on acquisition of KIMB	34,336
Proceeds from non-renounceable rights issue	62,031
Less: Estimated share issue expenses	(2,000)
Balance after the completion of the listing scheme	<u>94,367</u>

\* Represents RM2.00

**3.7 Provision for outstanding claims**

	<b>Proforma Group</b>
	<b>2004</b>
	<b>RM'000</b>
Provision for outstanding claims	801,427
Less: Recoverable from reinsurers thereon	(51,835)
Net outstanding claims	<u>749,592</u>

Included in the provision for outstanding claims at 30 June 2004 is an amount of RM470.6 million in respect of net provision for IBNR claims as determined by an independent actuary in a report dated 4 October 2004.

**3.8 Payables**

	<b>Proforma Group</b>
	<b>2004</b>
	<b>RM'000</b>
<b>Trade payables</b>	
Amount due to reinsurers/ceding companies and co-insurers	24,518
Amount due to agents/brokers and insureds	2,594
	<u>27,112</u>
Other payables and accrued liabilities	36,750
	<u>63,862</u>

**Trade payables**

Included in reinsurers/ceding companies and co-insurers balances are unreconciled differences of RM2,857,000 which constitutes more than 2% of the carrying amount.

**X. ACCOUNTANTS' REPORT (CONT'D)****3.9 Staff retirement benefits**

The liability for unfunded defined benefit obligation recognized under the balance sheet is analysed as follows:

	<b>Proforma Group 2004 RM'000</b>
Present value of unfunded obligations	8,040
	=====
Payable after twelve months	7,704
	=====

The expenses recognised in the revenue account under the management expenses caption are analysed as follows:

	<b>Proforma Group 2004 RM'000</b>
Current service cost	927
Interest cost	539
	-----
	1,466
	=====

Principal actuarial assumptions used at the balance sheet date:

	<b>Proforma Group 2004</b>
Discount rate	8%
Future salary increases	6%
	=====

Under the Scheme, eligible employee who have completed a minimum of 10 years of service is entitled to retirement benefits of one month of the last drawn salary for each completed year of service upon the retirement age of 56. Employees who leave before the attainment of the retirement age, are not entitled to the benefit.

**X. ACCOUNTANTS' REPORT (CONT'D)****3.10 Deferred tax**

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	<b>Proforma Group 2004 RM'000</b>
Property and equipment - capital allowances	8,558
Investments	(519)
Unearned premium reserve	7
Retirement benefits	(2,251)
Other deductible temporary differences	(65)
	<u>5,730</u>

**3.11 Negative goodwill**

The proforma negative goodwill arose on consolidation of its subsidiary, KIMB, as follows:-

	<b>Proforma Group 2004 RM'000</b>
Audited NTA of KIMB as at 30 June 2004	412,763
Less: Proforma adjustments to reflect payment of the net final dividend declared in respect of the financial year ended 30 June 2004	(75,000)
	<u>337,763</u>
Less: Purchase consideration via issuance of ordinary shares of KAB	(328,007)
Negative goodwill	<u>9,756</u>

**3.12 Unearned premium reserves****Proforma Group**

	<b>Fire RM'000</b>	<b>Motor RM'000</b>	<b>Marine, Aviation &amp; Transit RM'000</b>	<b>Miscel- laneous RM'000</b>	<b>Total RM'000</b>
At 1 July 2003	4,130	341,164	1,674	13,889	360,857
Increase/(Decrease) in unearned premium reserve	1,424	60,950	(258)	3,515	65,631
At 30 June 2004	<u>5,554</u>	<u>402,114</u>	<u>1,416</u>	<u>17,404</u>	<u>426,488</u>

**X. ACCOUNTANTS' REPORT (CONT'D)****3.13 Share capital**

	<b>Proforma Group 2004 RM'000</b>
Authorised:	
5 billion ordinary shares of RM0.25 each	<u>1,250,000</u>
Issued and fully paid:	
Balance at 30 June 2004	*
Issued for the acquisition of KIMB	328,007
Non- renounceable rights issue	<u>46,993</u>
Balance after the completion of the listing scheme	<u>375,000</u>

\* *Issued and paid-up share capital of KAB of RM2, representing 8 ordinary shares of RM0.25 each after the implementation of the share split.*

**3.14 Share premium**

	<b>Proforma Group 2004 RM'000</b>
Audited balance at 30 June 2004	-
Non- renounceable rights issue	15,038
Less: Estimated share issue expenses	<u>(2,000)</u>
Balance after the completion of the listing scheme	<u>13,038</u>

**3.15 Capital commitments**

Capital expenditure approved by the Directors but not provided for in the financial statements as at 30 June 2004 amounted to approximately:

	<b>Proforma Group 2004 RM'000</b>
Property and equipment	
Authorised but not contracted for	-
Authorised and contracted for	<u>2,736</u>
	<u>2,736</u>

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**3.16 Financial instruments****Financial risk management objectives and policies**

Exposure to underwriting, credit, interest rate, liquidity and market risks arises in the normal course of the Group and the Company's business. The Board of Directors assumes overall responsibility for the Group and the Company's financial risk management and have established certain committees to address the risks on an ongoing basis.

**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 of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Group and the Company seeks to minimise underwriting risks with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines and limits and high standards applied to the security of reinsurers.

**Credit risk**

Credit risk represents the potential losses that may result due to the inability of the counterparties to insurance, reinsurance and investment transactions in meeting their contractual obligations.

The Group and the Company has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Investments are made based on appropriate evaluations, in accordance with Guidelines/Circular issued by BNM, whereby all bond investments must carry a minimum rating of BBB or P3 by rating agencies established in Malaysia.

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

**Interest rate risk**

The Group and the Company's earnings are affected by changes in market interest rates as the impact of such changes has an effect on interest income from deposit placements and fixed income securities. Investment guidelines have been established and sets out policies to minimise the risks in the Group and the Company's investments. In addition, deposit placements are made with various financial institutions at varying maturity dates and rates.

**Liquidity risk**

Liquidity risk is the risk whereby the Group and the Company is unable to meet its obligations at a reasonable cost or at any time. The Group and the Company manages this risk by monitoring its daily and monthly projected and actual cash flows. It also holds a sufficient quantity of liquid investments that can be readily converted to cash.



**X. ACCOUNTANTS' REPORT (CONT'D)****3.16 Financial instruments (continued)****Market risk**

The Group and the Company's investment portfolio is generally exposed to fluctuation in market prices. The risk is managed via setting diversification requirement and investment limits of each investee groups. Risk and returns are constantly monitored and reviewed by the Executive Committee.

**Effective interest rates and repricing analysis**

The following table provides information about financial assets showing the weighted average effective interest rate as at year end and the maturity/repricing structure, whichever is earlier, for each class of interest-bearing financial instruments in the balance sheet.

	Effective interest rate per annum %	Proforma Group 2004			
		Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000
<b>Financial assets</b>					
Investments					
- Malaysian Government Securities	6.16	49,219	5,977	43,242	-
- Cagamas Bonds	3.89	165,161	25,000	140,161	-
- Zero Coupon Government Guaranteed Bonds	5.43	17,396	-	17,396	-
- Unquoted secured Long Term Bonds	8.03	15,232	-	15,232	-
- Unquoted unsecured Long Term Bonds	6.64	103,646	19,994	62,266	21,386
- Unquoted secured short term loans	10.22	30,164	20,164	10,000	-
- Fixed & call deposits	2.86	634,227	634,227	-	-
Loans					
- Mortgage loans	4.44	18,492	8,870	2,656	6,966
Total financial assets		1,033,537	714,232	290,953	28,352

**X. ACCOUNTANTS' REPORT (CONT'D)****3.16 Financial instruments (continued)****Fair value*****Recognised financial instruments***

The carrying amounts of financial instruments in respect of cash and bank balances, receivables and payables on the Balance Sheet approximate their fair values due to the relatively short term nature of these financial instruments.

The Group and the Company's basis of estimation of fair values for financial instruments is as follows:

- The fair values of Malaysian Government Securities, Cagamas Bonds, Zero Coupon Government Guaranteed Bonds, Zero Coupon Bonds and Islamic Government Guaranteed Bonds are based on the indicative market prices;
- The fair values of quoted shares of corporations and unit trusts are based on quoted market price as at balance sheet date;
- The fair values of unquoted secured and unsecured Long Term Bonds are based on the indicative market yields obtained from fund managers;
- The carrying amount of secured short term loan and fixed and call deposits with a maturity period less than one year are assumed to approximate their fair values;
- The mortgage loans with variable rates are considered to approximate their fair values, and
- For mortgage and other loans with fixed rates, fair values are derived by discounting future cash flows, using interest rates for similar instruments, where applicable, taking into consideration the nature and contracted terms of these loans. Based on management's assessment as at 30 June 2004, the estimated fair values of the loans approximate their carrying values.

The fair values of the financial assets carried on the balance sheet as at 30 June 2004 are shown below:

	<b>Proforma Group</b>	
	<b>2004</b>	
	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
Investments		
- Malaysian Government Securities	49,219	52,674
- Cagamas Bonds	165,161	165,163
- Zero Coupon Government Guaranteed Bonds	17,396	17,165
- Quoted shares of corporations	241,786	256,467
- Quoted unit trusts	15,803	15,803
- Unquoted secured Long Term Bonds	15,232	15,259
- Unquoted unsecured Long Term Bonds	103,646	103,817
- Unquoted secured short term loan	30,164	30,164
- Fixed and call deposits	634,227	634,227
Loans		
- Mortgage loans	18,492	18,492
- Other loans	1,033	1,033

**X. ACCOUNTANTS' REPORT (CONT'D)****4 Proforma cash flow statements**

The cash flow statements of the Company and the Proforma Group set out below are based on the audited financial statements of KAB and KIMB for the financial year ended 30 June 2004, on the basis that the Kurnia Group under the Listing Scheme as detailed in Section 1.3 had been effected on 30 June 2004.

	Year ended 30 June 2004	
	Audited Company RM'000	Proforma Group RM'000
<b>Cash flows from operating activities</b>		
(Loss)/Profit before tax	(5)	120,275
Adjustments for:		
Depreciation	-	15,506
Increase in reserve for unexpired risks	-	65,631
Investment income	-	(52,510)
Profit on disposal of investments	-	(28,049)
Gain on disposal of equipment	-	(88)
Equipment written off	-	1,023
Deferred expenditure written off	2	2
Write back of diminution in value of investments		
Allowance for doubtful debts	-	(6,202)
Provision for retirement benefits	-	3,871
Accretion of discounts, net of amortisation of previous	-	1,466
		(1,537)
(Loss)/ profit from operations before changes in operating assets and liabilities	(3)	119,388
Purchase of investments	-	(350,045)
Proceeds from redemption and disposal of investments	-	357,246
Increase in loans	-	(3,602)
Increase in fixed and call deposits	-	(28,032)
Increase in receivables	-	(23,586)
Increase in outstanding claims	-	101,766
Increase in payables	3	5,986
	-	179,121

**X. ACCOUNTANTS' REPORT (CONT'D)****4 Proforma cash flow statement (continued)**

Income tax paid	-	(63,993)
Tax credit refunded	-	6,042
Investment income received		
Dividend	-	14,759
Interest	-	37,042
Retirement benefits paid	-	(262)
<b>Net cash generated from operating activities</b>	-	<b>172,709</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of equipment	-	96
Purchase of equipment	-	(12,494)
<b>Net cash used in investing activities</b>	-	<b>(12,398)</b>
<b>Cash flows from financing activities</b>		
Shareholders dividend paid	-	(145,000)
Proceeds from non-renounceable rights issue		62,031
Share issue expenses		(2,000)
<b>Net cash used in financing activities</b>	-	<b>(84,969)</b>
Net increase in cash and bank balances	-	75,342
Cash and bank balances at beginning of year	*	19,025
<b>Cash and bank balances at end of year</b>	*	<b>94,367</b>

\* Represents RM2.00.

**5 Proforma net tangible assets cover**

Based on the proforma statement of assets and liabilities of the Kurnia Group as at 30 June 2004, the net tangible assets cover will be as follows:

	<b>Proforma Group RM'000</b>
Net assets statement of assets and liabilities of the Proforma Group as at 30 June 2004	388,033
Add negative goodwill	9,756
NTA	<u>397,789</u>
Number of ordinary shares of RM0.25 each assumed in issue by the Proforma Kurnia Group as at 30 June 2004	<u>1,500,000</u>
Proforma net tangible assets cover per ordinary share of RM0.25 each (RM)	<u>0.27</u>

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**X. ACCOUNTANTS' REPORT (CONT'D)**

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**6 Events subsequent to the balance sheet date as at 30 June 2004**

Other than the completion of the acquisition of KIMB and the non-renounceable rights issue as referred to in Section 1.3, no significant events have arisen subsequent to the balance sheet date which requires disclosure in this Report.

**7 Audited financial statements**

No audited financial statements of KAB and its subsidiary have been made up in respect of any period subsequent to 30 June 2004.

Yours faithfully

**KPMG**

Firm Number: AF 0758

Chartered Accountants

**Khaw Hock Hoe**

Partner

Approval Number: 2229/04/06(J)

## XI. DIRECTORS' REPORT



**Registered Office:**

25<sup>th</sup> Floor, Menara Kurnia, Block B4  
Pusat Dagang Setia Jaya  
(Leisure Commerce Square)  
No. 9, Jalan PJS 8/9  
46150 Petaling Jaya  
Selangor Darul Ehsan

27<sup>th</sup> December 2004

The Shareholders of Kurnia Asia Berhad

Dear Sir/Madam,

On behalf of the Directors of Kurnia Asia Berhad ("KAB"), I report after due inquiry that during the period from 30 June 2004 (being the date to which the last audited financial statements of KAB and its subsidiary ("Kurnia Group") have been made up) to 27 December 2004 (being a date not earlier than fourteen days before the issue of this Prospectus):

- (a) the business of the Kurnia Group, in the Directors' opinion, has been satisfactorily maintained;
- (b) in the Directors' opinion, no circumstances have arisen subsequent to the last audited financial statements of the Kurnia Group which have adversely affected the trading or the value of the assets of the Kurnia Group;
- (c) the current assets of the Kurnia Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in this Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Kurnia Group; and
- (e) save as disclosed in this Prospectus, there have been no material changes in published reserves or any unusual factors affecting the profits of the Kurnia Group.

Yours faithfully  
For and on behalf of  
the Board of Directors of KAB

  
Dato' Loh Heong Chow @ Loh Heong Chow  
Executive Director

**KURNIA ASIA BERHAD** Company Number : 539435-K

HEAD OFFICE: Menara Kurnia, No. 9, Jalan PJS 8/9, 46150 Petaling Jaya, P.O. Box 8607, 46792 Petaling Jaya, Selangor Darul Ehsan.  
Tel: 603-7877 6622 Fax: 603-7874 8646 E-mail: kab@kurnia.com.my Website: www.kurnia.com.my