

# KURNIA ASIA BERHAD

## Part A – Explanatory Notes Pursuant to FRS134<sub>2004</sub>

### A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with FRS 134<sub>2004</sub> – Interim Financial Reporting and Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Securities”). It should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2005.

The accounting policies and methods of computation applied in the preparation of the quarterly financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 30 June 2005 and applicable approved accounting standards in Malaysia.

The Consolidated Condensed Financial Statements should be read in conjunction with the accompanying explanatory notes attached to the financial statements.

The comparative figures presented in the Condensed Consolidated Financial Statement include only post-acquisition results of the subsidiary company, Kurnia Insurans (Malaysia) Berhad (“KIMB”), reflected on line-by-line basis.

This format is different from that presented in the Group’s quarterly Condensed Consolidated Financial Statement and Condensed General Insurance Revenue Account for the quarter ended 31 March 2005 whereby the pre-acquisition results was deducted from the “Profit After Taxation” on net basis.

Reconciliation on comparative figures are presented below:

### **Condensed Consolidated Income Statement**

	Cumulative Quarter (31/03/2005)		
	Previously Reported RM'000	Pre-acquisition RM'000	Post-acquisition RM'000
Operating Revenue	932,538	393,497	539,041
Surplus transferred from Insurance Revenue A/C	138,323	68,909	69,414
Management expense	(380)	-	(380)
Interest income	137,943	68,909	69,034
Profit from operation before taxation	531	-	531
Taxation	138,474	68,909	69,565
Profit after taxation	(45,098)	(17,834)	(27,264)
Pre-acquisition profit	93,376	51,075	42,301
Profit attributable to Group	(51,075)		
	42,301		

## Condensed General Insurance Revenue Account

	Cumulative Quarter (31/03/2005)		
	Previously Reported RM'000	Pre-acquisition RM'000	Post-acquisition RM'000
Gross premium	893,370	378,302	515,068
Less: Reinsurance	(70,177)	(29,663)	(40,514)
Net premium	823,193	348,639	474,554
UPR (Increase) / Decrease	(41,996)	(17,836)	(24,160)
Earned premium	781,197	330,803	450,394
Commission (Net)	(80,199)	(34,432)	(45,767)
Net Claims Incurred	(478,867)	(194,372)	(284,495)
Underwriting surplus before management expense	222,131	101,999	120,132
Management expense	(134,376)	(48,631)	(85,745)
Underwriting surplus	87,755	53,368	34,387
Investment income	38,637	15,195	23,442
Other income / (expenditure) - Net	11,931	346	11,585
Surplus transferred to Condensed Consolidated Income Statement	138,323	68,909	69,414

### **A2. Preceding year's audit report**

The annual financial statements of the Group for financial year ended 30 June 2005 were not qualified.

### **A3. Seasonal or cyclical factors**

The Group's business operations are not significantly affected by any seasonal or cyclical factors.

### **A4. Unusual items due to their nature, size or incidence**

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group for the current financial period under review.

### **A5. Changes in estimates**

There were no material changes in estimates of amounts reported that have a material effect in the current financial period under review.

### **A6. Debt and equity securities**

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial period under review.

### **A7. Dividend payment**

On 23 September 2005, the Company paid an interim gross dividend of 9.027sen per ordinary share less 28% income tax, totaling RM97.5 million in respect of the financial year ending 30 June 2006.

**A8. Segmental information**

By business segment	Current Year-To-Date (31/03/2006)			Preceding Year-To-Date (31/03/2005) #		
	Underwriting general insurance business RM'000	Investment holding RM'000	Consolidated RM'000	Underwriting general insurance business RM'000	Investment holding RM'000	Consolidated RM'000
<b>Revenue</b>						
Total revenue	868,004	2,058	870,062	538,510	531	539,041
<b>Result</b>						
Profit /(Loss) before tax	142,155	(1,447)	140,708	69,414	151	69,565
Tax expense			(42,141)			(27,264)
Profit after tax			98,567			42,301

# The comparative figures consist of only post-acquisition results of the subsidiary company, KIMB. The subsidiary was acquired on 5 November 2004.

**A9. Valuations of property, plant and equipment**

The valuations of property, plant and equipment have been brought forward without any amendments from the preceding annual financial statements.

**A10. Material events not reflected in the financial statements**

There were no material subsequent events from the end of the current financial period under review to the date of this interim report.

**A11. Changes in composition of the Group**

There were no changes in the composition of the Group during the financial period under review.

**A12. Contingent liabilities**

At the date of this report, there does not exist any contingent liability of the Group, which has arisen since the end of the last financial year.

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

**A13. Capital commitments**

Capital commitments not provided for in the interim financial report as at 31 March 2006 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	7,779
	<u>7,779</u>

## **Part B – Additional Disclosures In Compliance With Bursa Securities Listing Requirements**

### **B1. Review of the performance of the Company and its principal subsidiary**

The Group's year-to-date and current quarter results are derived mainly from KIMB, the principal subsidiary of the Company.

#### Group's performance

The Group recorded a net profit of RM41.654 million for the current quarter and RM98.567 million for the 9 months period ended 31/03/2006, which translated into net earnings per ordinary share (EPS) of 2.78 sen and 6.57 sen respectively.

The year-to-date results are not comparable to that being reported by the Group for the corresponding period in preceding year, which consist only the post-acquisition (i.e. from November 2004 and December 2004) results of the subsidiary, KIMB. The acquisition of KIMB by the Group was effected on 05 November 2004. Hence, KIMB's year-to-date results are analysed as below to provide a more comprehensive and comparable review.

The Group's net assets value (NAV) per ordinary share grew from 34.01 sen at the end of the preceding quarter to 36.79 sen at the end of the current quarter, while total assets expanded from RM1.906 billion to RM1.917 billion.

#### Subsidiary's performance

KIMB recorded a net profit of RM100.177 million for the 9 months ended 31/03/2006, representing a 7.5% growth from the RM93.224million for the corresponding period in the preceding year. The higher net profit recorded was attributed to the 17.2% growth in net investment and other income (from RM50.568 million for 9 months ended 31/03/2005 to RM59.256 million for the 9 months ended 31/03/2006). However, the strong performance was offset by an approximately 5.5% drop in underwriting surplus (ie. from RM87.755 million for the 9 months ended 31/03/2005 to RM82.899 million for the 9 months ended 31/03/2006).

Gross premium income declined by 8.0% from RM893.370 million for the 9 months ended 31/03/2005 to RM821.637 million for the 9 months ended 31/03/2006, following the Groups' conscious efforts taken during the first half year of FY2006 in streamlining its underwriting portfolio, which was effected by reducing non-profitable business lines to further enhance profitability over the longer term.

However, with the higher release from unearned premium reserve, earned premium improved from RM781.197 million for the 9 months ended 31/03/2005 to RM783.077 million for 9 months ended 31/03/2006.

Claims expenses increased marginally by 0.5% year-on-year while the claims ratio of 61.5% for the current 9 months ended 31/03/2006 remained consistent with the 61.3% recorded in the previous year corresponding period.

Management expenses increased by 1.9% year-on-year for 9 months ended 31/03/2006 mainly due to implementation cost on various e-initiatives like e-Policy and e-Payment, which are expected to benefit the Group over the longer term via improved efficiency. The lower net premium base recorded in current period resulted in a higher management expense ratio of 17.9% compared with 16.3% for the corresponding period in previous year.

Net investment and other income improved significantly by 17.2% from RM50.568 million for the 9 months ended 31/03/2005 to RM59.256 million for the 9 months ended 31/03/2006. This resulted mainly from higher dividend income and interest income generated from the Group's efforts in re-strategizing its investment portfolio since the beginning of the current financial year.

Concurrently, the improved stock market performance at the end of the current period also contributed to the better equity trading results as well as a net write back of provision for diminution in value of quoted investments for the current period as compared to the previous year's corresponding period.

## **B2. Explanatory comments on any material change in the profit before taxation for the quarter reported on as compared with preceding quarter**

The Group posted a profit before tax of RM59.379 million for the quarter under review, representing a 108% growth from the RM28.464 million for the preceding quarter. The improvement in profitability recorded was attributed to both underwriting as well as investment activities.

Overall underwriting performance improved by 21.8% quarter-on-quarter, from surplus of RM21.181 million in preceding quarter to RM25.787million in current quarter.

Gross premium income continued to show recovery after the slow down in the first half of the financial year following the implementation of management initiatives mentioned in B1, and recorded a quarter-on-quarter growth of 2.6%.

Commission expenses increased by 33.1% quarter-on-quarter, mainly due to payment of profit commission to profitable agents in January 2006.

On a positive note, claims expenses reduced by 8.0% compared with the preceding quarter. While it could be attributed to the effect of improved claims control, it is also partly attributed to the timing differences due to the random and unpredictable nature of when claims are incurred and the quantum of such claims that are incurred from quarter to quarter.

Management expense also reduced by 8.8% quarter-on-quarter, mainly due to the staff bonus expenses recorded in preceding quarter.

Investment and other income (net) improved significantly by 315.6% quarter-on-quarter, from RM8.205 million to RM34.101 million. This was mainly attributed to the RM12.625 million reversal of provision for diminution in value of quoted investments recorded during the current quarter compared with RM9.932 million additional provision for diminution of quoted investments for preceding quarter. The improvement is in-line with the stronger performance of KLCI, which at the end of the quarter rose by 3% to 926.63 points from about 900 points level as at 31/12/2005.

## **B3. Prospects for the current financial year**

Recognising the market challenges ahead, the Group has initiated various management initiatives and strategies with the aim of improving its competitiveness and long-term profitability. In addition to investments in the necessary computer equipment and other relevant capital expenditure, initial costs on such initiatives are expected to impact on current year earnings before the benefits in the form of lower operating cost and higher market share are realized over the near future.

Barring unforeseen circumstances, the Directors expect the Group's results for the financial year 2006 to be satisfactory.

## **B4. Variance of actual profit from forecast profit**

Not applicable.

## **B5. Taxation**

	Individual Quarter		Cumulative Quarter	
	Current Year 31/03/2006	Preceding Year 31/03/2005	Current Year-to-date 31/03/2006	Preceding Year-to-date 31/03/2005
RM'000				
Profit before tax	59,379	42,243	140,708	69,565
Current year taxation	17,725	16,711	42,141	27,264
Deferred taxation	-	-	-	-
Total taxation expense	17,725	16,711	42,141	27,264
Effective tax rate	29.85	39.56	29.95	39.19

The effective tax rate of the Group for the period is higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.

**B6. Sales of unquoted investments and /or properties**

There was no sale of unquoted investments and/or properties for the current quarter and financial year-to-date.

**B7. Quoted securities**

The following are the particulars of purchase or disposal of quoted securities by the Group other than in respect of its insurance subsidiary which are exempted from disclosure of this information:

a. Investment in quoted securities as at 31 March 2006:

	<b>RM'000</b>
(i) At cost	: 45,457
(ii) At book value	: 45,148
(iii) At market value	: 45,148

**B8. Status of corporate proposals**

(i) The status of the utilization of the proceeds from Rights Issue exercise, which was completed in November 2004, as at the date of this announcement is as follows:

	As proposed <u>RM'000</u>	Actual <u>RM'000</u>
Total proceeds raised	<u>62,031</u>	<u>62,031</u>
Utilisation of Rights Issue proceeds	As proposed <u>RM'000</u>	Actual <u>RM'000</u>
Working capital	60,031	45,000
Listing expenses	<u>2,000</u>	<u>2,460</u>
	<u><u>62,031</u></u>	<u><u>47,460</u></u>

**B9. Group borrowings**

As at the date of this report, the Group has no outstanding bank borrowings or overdraft.

**B10. Off balance sheet risk**

The Group did not have any financial instruments with off balance-sheet risk as at 10 May 2006, the latest practicable date, which is not earlier than 7 days from the date of issue of this quarterly report.

**B11. Material litigation**

There was no material litigation (outside the ordinary course of its principal subsidiary's business) as at 10 May 2006, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

**B12. Proposed Dividend**

During the first quarter of current financial year, the Company proposed and declared an interim gross dividend of 9.027 sen per ordinary share less 28% income tax, totaling RM97.5 million in respect of the financial year ending 30 June 2006. The dividend was paid on 23 September 2005 as mentioned in Note A7 above.

The Directors do not propose any dividend for the quarter ended 31 March 2006.

**B13. Earnings Per Share**

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/03/2006	31/03/2005	31/03/2006	31/03/2005
<b><u>Basic</u></b>				
Net profit attributable to ordinary shareholders (RM'000)	41,654	25,532	98,567	42,301
Weighted average no. of ordinary shares in issue ('000)	1,500,000	617,168	1,500,000	617,168
Basic earnings per ordinary share (sen)	<b>2.78</b>	<b>4.14</b>	<b>6.57</b>	<b>6.85</b>

By Order of the Board  
Chung Pei Pei  
Company Secretary

SELANGOR DARUL EHSAN  
DATE: 15 May 2006  
File: KAB-3QtrNotes-31032006