

KURNIA ASIA BERHAD

Part A – Explanatory Notes Pursuant to FRS134

A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with FRS 134 – 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 31st December 2010.

The significant 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 financial statements for the year ended 31st December 2010, except for:

- i) the change in accounting policy to adopt the revaluation model to measure freehold land and buildings and leasehold buildings classified as property and equipment in accordance with *FRS 116: Property, plant and equipment*. This change in accounting policy has been accounted for prospectively upon the initial application of the revaluation model in accordance with FRS 116. Under the revaluation model, the properties are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. Any revaluation surplus is credited to the revaluation reserve included within equity.
- ii) the change in accounting policy with respect to the subsequent measurement of investment property from the cost model to the fair value model, with changes in fair value recognised in profit and loss, in accordance to *FRS 140 Investment Property*. The Group applied the impact of adopting fair value model, which amounted to RM160,000, prospectively and not otherwise adjusted to the opening balance of retained earnings as required by FRS140, since it is not material to the Group’s financial results.
- iii) the adoption of the following Financial Reporting Standards (“FRS”), amendments to FRSs, and Issues Committee Interpretations (“IC Interpretations”):

FRSs/ Interpretations	Effective date
Amendments to FRS 132, <i>Financial Instruments: Presentation – Classification of Right Issues</i>	1 March 2010
FRS 3, <i>Business Combinations (revised)</i>	1 July 2010
FRS 127, <i>Consolidated and Separate Financial Statements (revised)</i>	1 July 2010
Amendments to FRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 July 2010
Amendments to FRS 138, <i>Intangible Assets</i>	1 July 2010
Amendments to IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 July 2010
Amendments to FRS 7, <i>Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments</i>	1 January 2011
IC Interpretation 4, <i>Determining whether an Arrangement contains a Lease</i>	1 January 2011
Improvements to FRSs (2010)	1 January 2011

A2. Preceding year’s audit report

The annual financial statements of the Group for financial year ended 31st December 2010 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

During the quarter, the Group changed its accounting policy and revalued all properties to market value. As a result, the Group recognised a revaluation surplus of RM30.746 million net of taxation into revaluation reserve.

In the same period, for capital management purposes, the insurance subsidiary in Malaysia, Kurnia Insurans (M) Berhad (“KIMB”) had entered into a loss portfolio transfer agreement with a reinsurer. As a result, claims liabilities of RM67.860 million were transferred to the reinsurer.

Save as disclosed above, 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

There was no dividend paid by Kurnia Asia Berhad (“the Company”) during the current financial period under review.

A8. Segmental information

	Current Year-to-date (30/06/2011)			Preceding Year-to-date (30/06/2010)		
	Underwriting business in Malaysia	Others	Total	Underwriting business in Malaysia	Others	Total
By operating segments						
Operating revenue	561,883	12,099	573,982	513,375	15,816	529,191
Segment results	45,667	(15,691)	29,976	44,468	(17,588)	26,880
Share of (loss) profit from associate company			(513)			166
Net profit			29,463			27,046

A9. Material events not reflected in the financial statements

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

A10. Changes in composition of the Group

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

A11. 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 period.

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 subsidiaries, Kurnia Insurans (M) Berhad ("KIMB") and PT Kurnia Insurance Indonesia ("KII") and its associate company, Kurnia Insurance (Thailand) Co., Ltd. ("KIT").

A12. Capital commitments

Capital commitments not provided for in the interim financial report as at 30th June 2011 is as follow:

	RM'000
<u>Property and equipment</u>	
- approved and contracted for	<u>2,569</u>

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

B1. Review of the performance of the Company and its subsidiaries

The Group recorded a net profit of RM29.463 million for the 6 months ended 30th June 2011, up 8.9% from the RM27.046 million recorded last year, following the improved underwriting and investment performances. Gross premium rose by 1.5% year-on-year, driven by non-motor segment, which posted a growth rate of 16%.

As at 30th June 2011, the net asset value of the Group improved to RM390.916 million (31st December 2010: RM327.797 million). The increase was due to the surplus on revaluation of properties amounting to RM30.746 million as well as RM29.463 million net profits recorded during the 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 recorded a pre-tax profit of RM20.656 million during the quarter, slightly lower compared to RM21.277 million recorded in the preceding quarter. This is mainly due to higher reinsurance premium outwards arising from the one-time cost incurred in carrying out a loss portfolio transfer exercise in June 2011.

B3. Prospects for the current financial year

The Group maintained its momentum in strengthening its financial performance and position.

Barring unforeseen circumstances, the Board of Directors expects the Group to record satisfactory performance for the remaining period of the current financial year ending 31st December 2011.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Tax expense

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 30/06/2011	Preceding Year-to-date 30/06/2010	Current Year-to-date 30/06/2011	Preceding Year-to-date 30/06/2010
Profit before tax	20,656	5,978	41,933	41,023
Current year tax expense	5,644	2,741	12,470	13,977
Deferred tax expense	-	-	-	-
Total tax expense	5,644	2,741	12,470	13,977
Effective tax rate (%)	27.32	45.85	29.74	34.07

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 period- to-date.

B7. Quoted securities

There were no purchases or disposal of quoted securities by the Group other than by the insurance subsidiaries and associated company in the normal course of its business activities, which are exempted from the disclosure of this information. As at 30th June 2011, there was no investment in quoted securities.

B8. Status of corporate proposals

On 6th August 2010, the Company announced a proposal to undertake a private placement of up to 148,842,260 ordinary shares of the Company.

On 21st July 2011, the Company announced that it has received expressions of interest from certain parties to explore the possibility of acquiring an equity interest in its wholly-owned subsidiary, Kurnia Insurans (M) Berhad (KIMB). BNM has, via its letter dated 21st July 2011, stated that it has no objection in principle for the Company to commence preliminary negotiations with the relevant interested parties.

Save as disclosed above, there were no other corporate proposals announced as at 12th August 2011 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

B9. Group borrowings and debt securities

The Group's borrowings and debt securities as at the end of the reporting period are as follow:

	RM'000
Secured long term loan	<u>360,000</u>

B10. Off balance sheet risk

The Group did not have any financial instruments with off balance-sheet risk at 12th August 2011, 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 business of its insurance subsidiaries) as at 12th August 2011, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

B12. Proposed dividend

The Board of Directors does not propose any dividend for the period ended 30th June 2011.

B13. Earnings per share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/06/2011	30/06/2010	30/06/2011	30/06/2010
Basic				
Profit for the period attributable to ordinary shareholders (RM'000)	15,012	3,237	29,463	27,046
Weighted average no. of ordinary shares in issue ('000)	1,488,423	1,488,423	1,488,423	1,488,423
Basic earnings per ordinary share (sen)	1.01	0.22	1.98	1.82

B14. Supplementary information on the breakdown of realised and unrealised profits or loss

The breakdown of the retained earnings of the Group as at 30th June 2011, into realised and unrealised profits, pursuant to the directive, is as follow:

	As At 30.06.2011	As At 31.12.2010
	<u>RM'000</u>	<u>RM'000</u>
Total retained earnings (accumulated losses) of the Group		
-Realised	(38,694)	(65,334)
-Unrealised	11,148	10,749
	<u>(27,546)</u>	<u>(54,585)</u>
Total share of retained earnings (accumulated losses) from associate		
-Realised	(1,183)	(3,616)
-Unrealised	45	54
	<u>(28,684)</u>	<u>(58,147)</u>
Consolidation adjustment	-	-
Total retained earnings (accumulated losses) as per financial statement	<u>(28,684)</u>	<u>(58,147)</u>

The determination of realised and unrealised profits is compiled based on Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, issued by the Malaysian Institute of Accountants on 20th December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

SELANGOR DARUL EHSAN
DATE: 16th August 2011
File: KAB-30June2011Notes