

# 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 31<sup>st</sup> 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 31<sup>st</sup> 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”):

| <b>FRSs/ Interpretations</b>  | <b>Effective date</b> |
|---|-----------------------|
| 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 31<sup>st</sup> 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 2<sup>nd</sup> quarter of the financial year, 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 (30/09/2011) |          |         | Preceding Year-to-date (30/09/2010) |          |         |
|---|-----------------------------------|----------|---------|-------------------------------------|----------|---------|
|   | Underwriting business in Malaysia | Others   | Total   | Underwriting business in Malaysia   | Others   | Total   |
| By operating segments                         |                                   |          |         |                                     |          |         |
| Operating revenue                             | 849,976                           | 19,068   | 869,044 | 788,500                             | 27,611   | 816,111 |
| Segment results                               | 62,836                            | (25,087) | 37,749  | 48,405                              | (24,790) | 23,615  |
| Share of (loss) profit from associate company |                                   |          | (1,018) |                                     |          | (316)   |
| Net profit                                    |                                   |          | 36,731  |                                     |          | 23,299  |

**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 30<sup>th</sup> September 2011 is as follow:

|                               |              |
|-------------------------------|--------------|
|                               | RM'000       |
| <u>Property and equipment</u> |              |
| - approved and contracted for | <u>3,055</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 RM36.731 million for the 9 months ended 30<sup>th</sup> September 2011, up 57.6% from the RM23.299 million recorded last year. This is mainly due to the stronger underwriting performance which was offset by the impact of the weaker investment environment especially in the third quarter period. Gross premium income rose by 1.9% year-on-year, driven by non-motor segment which posted a growth rate of 18.0%.

As at 30<sup>th</sup> September 2011, the net asset value of the Group improved to RM391.937 million (31<sup>st</sup> December 2010: RM327.797 million). The increase was due to the surplus on revaluation of properties amounting to RM30.746 million as well as RM36.731 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 RM9.027 million during the quarter, lower compared to RM20.656 million recorded in the preceding quarter. This is mainly due to higher charge in unearned premium reserve resulting from higher gross premium income as well as lower investment income.

### **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 31<sup>st</sup> December 2011.

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

Not applicable.

**B5. Tax expense**

| RM'000                    | Individual Quarter         |                                      | Cumulative Quarter                 |                                      |
|---------------------------|----------------------------|--------------------------------------|------------------------------------|--------------------------------------|
|                           | Current Year<br>30/09/2011 | Preceding Year-to-date<br>30/09/2010 | Current Year-to-date<br>30/09/2011 | Preceding Year-to-date<br>30/09/2010 |
| Profit /(loss) before tax | 9,027                      | (2,386)                              | 50,960                             | 38,637                               |
| Current year tax expense  | 1,759                      | 1,361                                | 14,229                             | 15,338                               |
| Deferred tax expense      | -                          | -                                    | -                                  | -                                    |
| Total tax expense         | 1,759                      | 1,361                                | 14,229                             | 15,338                               |
| Effective tax rate (%)    | 19.49                      | NA                                   | 27.92                              | 39.70                                |

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 30<sup>th</sup> September 2011, there was no investment in quoted securities.

**B8. Status of corporate proposals**

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

On 21<sup>st</sup> 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 21<sup>st</sup> 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 18<sup>th</sup> November 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 18<sup>th</sup> November 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 18<sup>th</sup> November 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 30<sup>th</sup> September 2011.

**B13. Earnings per share**

|  | Individual Quarter |                | Cumulative Quarter |                |
|--|--------------------|----------------|--------------------|----------------|
|  | Current Year       | Preceding Year | Current Year       | Preceding Year |
|  | 30/09/2011         | 30/09/2010     | 30/09/2011         | 30/09/2010     |
| <b>Basic</b>   |                    |                |                    |                |
| Profit for the period attributable to ordinary shareholders (RM'000) | 7,268              | (3,747)        | 36,731             | 23,299         |
| 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)                              | 0.49               | (0.25)         | 2.47               | 1.57           |
|  |                    |                |                    |                |

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

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

|   | As At<br>30.09.2011<br>RM'000 | As At<br>31.12.2010<br>RM'000 |
|---|-------------------------------|-------------------------------|
| Total retained earnings (accumulated losses) of the Group               |                               |                               |
| -Realised   | (36,570)                      | (65,334)                      |
| -Unrealised   | 16,292                        | 10,749                        |
|   | <u>(20,278)</u>               | <u>(54,585)</u>               |
| Total share of retained earnings (accumulated losses) from associate    |                               |                               |
| -Realised   | (1,185)                       | (3,616)                       |
| -Unrealised   | 47                            | 54                            |
|   | <u>(21,416)</u>               | <u>(58,147)</u>               |
| Consolidation adjustment  | -                             | -                             |
| Total retained earnings (accumulated losses) as per financial statement | <u>(21,416)</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 20<sup>th</sup> 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: 24<sup>th</sup> November 2011  
File: KAB-30September2011Notes