

# 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

The Group’s next set of financial statements for annual period beginning on 1<sup>st</sup> January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) issued by the MASB that will also comply with International Financial Reporting Standards (“IFRS”).

**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

The Group has one reportable segment, namely the general insurance business in Malaysia, KIMB. "Others" represents non-reportable segments comprise general insurance business unit in Indonesia and investments holdings.

By operating segments	Current Year-to-date (31/12/2011)			Preceding Year-to-date (31/12/2010)		
	Underwriting business in Malaysia	Others	Total	Underwriting business in Malaysia	Others	Total
Operating revenue	1,133,542	27,726	1,161,268	1,063,301	33,635	1,096,936
Segment results	87,019	(37,940)	49,079	58,712	(40,920)	17,792
Share of (loss) profit from associate company			(525)			(2,780)
Net profit for the year			48,554			15,012
Segment assets	2,682,031	55,164	2,737,195	2,492,965	59,600	2,552,565
Unallocated assets			32,174			31,785
Total assets			2,769,369			2,584,350
Segment liabilities	1,926,134	436,147	2,362,281	1,829,110	421,266	2,250,376
Unallocated liabilities			4,986			6,177
Total liabilities			2,367,267			2,256,553

KIMB contributed RM87.0million (2010: RM58.7million) to the Group's results for the financial year, mainly due to its improved underwriting results.

- Overall gross premium grew by 3.8% year-on-year, as motor and non-motor portfolio expanded by 0.6% and 18.7% respectively. Portfolio mix (in term of motor to non-motor) improved to 80%:20% (2010: 82%: 18%) as KIMB strengthened its non-motor portfolio.
- Overall loss ratio stood at 71.7% (2010: 75.9%), mainly due to more stringent risk selection.
- Management expense fell by 5.1% year-on-year, largely due to better cost management and more efficient use of resources. Management expense ratio (over gross premium) improved from 16.2% to 14.8%.
- Total investment income for the year amounted to RM102.5 million, which was RM11.5 million or 10.1% lower than previous year. In terms of yield, the current year's investment yield stood at 5.8%.

Included in the net results of "Others" is finance cost amounting to RM22.4million (2010: RM21.2million).

## 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, 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 31<sup>st</sup> December 2011 is as follow:

	RM'000
<u>Property and equipment</u>	
- approved and contracted for	<u>4,193</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 RM48.554 million for the year, a significant improvement from the RM15.012 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 4.8% year-on-year, driven by non-motor segment which posted a growth rate of 20.2%.

As at 31<sup>st</sup> December 2011, the net asset value of the Group improved to RM402.102 million (31<sup>st</sup> December 2010: RM327.797 million). The increase was mainly due to the surplus on revaluation of properties amounting to RM30.746 million as well as RM48.554 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 RM10.168 million during the quarter, compared to RM9.027 million recorded in the preceding quarter. Improvement in investment performance during the quarter was offset by the weaker underwriting performance, which was mainly attributed to the RM9.95 million share of losses incurred by KIMB from Malaysia Motor Insurance Pool ("MMIP").

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

On 19<sup>th</sup> December 2011, the Company announced that it has submitted an application to Bank Negara Malaysia ("BNM") for the possible disposal of 100% equity in KIMB to AmG Insurance Berhad ("AmG"). Should the proposed disposal materialize, the Company is open to new investment opportunities.

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

Not applicable.

**B5. Tax expense**

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 31/12/2011	Preceding Year-to-date 31/12/2010	Current Year-to-date 31/12/2011	Preceding Year-to-date 31/12/2010
Profit /(loss) before tax	10,168	(9,001)	61,128	29,636
Current year tax expense	6,995	(10,039)	21,224	5,299
Deferred tax expense	(8,650)	9,325	(8,650)	9,325
Total tax expense	(1,655)	(714)	12,574	14,624
Effective tax rate (%)	NA	NA	20.57	49.34

The effective tax rate of the Group for the year is lower than the statutory tax rate mainly due to certain investment income was exempted from taxation. In addition, tax expense was further reduced due to unrecognised deferred tax assets in prior years.

**B6. 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 19<sup>th</sup> December 2011, the Company announced that it has submitted an application to BNM for the approval of the Minister of Finance pursuant to Section 67 of the Insurance Act 1996, to review a proposal to enter into an agreement with AmG for the possible disposal of its 100% equity interest in KIMB to AmG.

Save as disclosed above, there were no other corporate proposals announced as at 24<sup>th</sup> February 2012 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

**B7. 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>

**B8. Material litigation**

There was no material litigation (outside the ordinary course of business of its insurance subsidiaries) as at 24<sup>th</sup> February 2012, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

**B9. Proposed dividend**

The Board of Directors does not propose any dividend for the period ended 31<sup>st</sup> December 2011.

**B10. Earnings per share**

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
<b>Basic</b>				
Profit / (Loss) for the period attributable to ordinary shareholders (RM'000)	11,823	(8,287)	48,554	15,012
Weighted average no. of ordinary shares in issue ('000)	1,488,423	1,488,423	1,488,423	1,488,423
Basic earnings (loss) per ordinary share (sen)	0.79	(0.56)	3.26	1.01

**B11. Profit for the period**

Profit for the period is arrived at after (charging) / crediting:

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31-Dec-2011	31-Dec-2010	31-Dec-2011	31-Dec-2010
	RM'000	RM'000	RM'000	RM'000
<b>Profit for the period is arrived at after (charging) / crediting:</b>				
Interest income	8,783	10,491	38,205	44,507
Other income including investment income	24,644	32,591	138,816	120,448
Interest expense	(5,531)	(5,512)	(21,270)	(21,193)
Depreciation and amortisation	(2,956)	(3,731)	(13,567)	(16,312)
Provision for and write off of receivable	2,251	607	4,124	3,494
Gain or (loss) on disposal of quoted investment	363	3,600	6,769	14,356
Gain or (loss) on disposal of properties, plants and equipments	(25)	437	817	920
Impairment of assets	-	(1,383)	351	(1,383)
Foreign exchange gain or loss	422	(577)	334	(437)

Other than the above, there were no gain or loss on disposal of unquoted investment, gain or loss on derivatives and exceptional items for the current quarter and financial year ended 31<sup>st</sup> December 2011.

**B12. Supplementary information on the breakdown of realised and unrealised profits or loss**

The breakdown of the retained earnings of the Group as at 31<sup>st</sup> December 2011, into realised and unrealised profits, pursuant to the directive, is as follow:

	As At 31.12.2011 <u>RM'000</u>	As At 31.12.2010 <u>RM'000</u>
Total retained earnings (accumulated losses) of the Group		
-Realised	(33,967)	(65,334)
-Unrealised	26,037	10,749
	<u>(7,930)</u>	<u>(54,585)</u>
Total share of retained earnings (accumulated losses) from associate		
-Realised	(1,663)	(3,616)
-Unrealised	-	54
	<u>(9,593)</u>	<u>(58,147)</u>
Consolidation adjustment	-	-
Total retained earnings (accumulated losses) as per financial statement	<u><u>(9,593)</u></u>	<u><u>(58,147)</u></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: 27<sup>th</sup> February 2012  
File: KAB-31December2011Notes