

# KURNIA ASIA BERHAD

## Part A – Explanatory Notes Pursuant to MFRS134

### A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*; and Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Securities”). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31<sup>st</sup> December 2011.

Since the previous audited financial statements as at 31<sup>st</sup> December 2011, the Group has adopted the Malaysian Financial Reporting Standards (“MFRS”) framework issued by the Malaysian Standards Board (“MASB”) with effect from 1<sup>st</sup> January 2012. An explanation of how the transition to MFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note B12.

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 2011, except for:

a) Property, plant and equipment

For the financial year ended 31<sup>st</sup> December 2011, the Group adopted the revaluation model to measure its property, plant and equipment.

Upon transition to MFRSs, the Group has elected to apply the optional exemption to use fair value as deemed cost under MFRSs. The revaluation reserve of RM30.746 million as at 31<sup>st</sup> December 2011 was reclassified to retained earnings.

The impact arising from the change is summarised as follows:

<b>Property, plant and equipment</b>	<b>01-Jan-2011</b>	<b>31-Mar-2011</b>	<b>31-Dec-2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Consolidated statement of profit or loss and other comprehensive income</b>			
Depreciation on property, plant and equipment	-	(152)	(299)
Impairment loss	-	-	(351)
	<u>-</u>	<u>(152)</u>	<u>(650)</u>
<b>Consolidated statement of financial position</b>			
Fair value as deemed cost of property, plant and equipment	31,152	31,000	(1,862)
Reclassification of revaluation reserve to retained earnings	-	-	30,746
Related tax effect	(1,508)	(1,508)	110
Adjustment to retained earnings	<u>29,644</u>	<u>29,492</u>	<u>28,994</u>

b) Investment property

For the financial year ended 31<sup>st</sup> December 2011, the Group measured investment property at fair value. Upon transition to MFRSs, the Group elected to measure its investment property at cost.

The impact arising from the change is summarised as follows:

<b>Investment property</b>	<b>Note</b>	<b>01-Jan-2011</b>	<b>31-Mar-2011</b>	<b>31-Dec-2011</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Consolidated statement of financial position</b>				
Fair value as deemed cost of investment property	B12.a	213	213	-
Adjustment to retained earnings	B12.d(ii)	213	213	-

c) Translation reserve

Upon transition to MFRSs, the Group elected to apply the optional exemption to deem the cumulative translation differences for all foreign operations to be zero.

The impact arising from the change is summarised as follows:

Translation reserve	Note	01-Jan-2011 RM'000	31-Mar-2011 RM'000	31-Dec-2011 RM'000
<i>Consolidated statement of financial position</i>				
Reclassification of translation reserve to retained earnings	B12.a	(2,504)	(2,504)	(2,504)
Adjustment to retained earnings	B12.d(ii)	(2,504)	(2,504)	(2,504)

d) Investment in associate company

Upon transition to MFRSs, the Group elected to measure its investment in associate company at fair value.

The impact arising from the change is summarised as follows:

Investment in associate company	Note	01-Jan-2011 RM'000	31-Mar-2011 RM'000	31-Dec-2011 RM'000
<i>Consolidated statement of financial position</i>				
Fair value as deemed cost of investment in associate company	B12.a	(10,512)	(10,512)	(10,512)
Adjustment to retained earnings	B12.d(ii)	(10,512)	(10,512)	(10,512)

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

The annual financial statements of the Group for financial year ended 31<sup>st</sup> December 2011 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, other than as discussed in A1 above and B12.

**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, Kurnia Insurans (M) Berhad (“KIMB”). “Others” represents non-reportable segments which comprise the general insurance business unit in Indonesia and investment holdings.

RM'000	Current Year-to-date (31/03/2012)			Preceding Year-to-date (31/03/2011) Restated		
	Underwriting business in Malaysia	Others	Total	Underwriting business in Malaysia	Others	Total
By operating segments						
Operating revenue	290,331	10,962	301,293	280,457	6,394	286,851
Segment results	33,860	(7,506)	26,354	22,923	(8,268)	14,655
Share of (loss) profit from associate company			(1,751)			(356)
Net profit for the year			24,603			14,299
Segment assets	2,717,844	50,542	2,768,386	2,524,011	53,582	2,577,593
Unallocated assets			12,623			33,667
Total assets			2,781,009			2,611,260
Segment liabilities	1,927,475	435,672	2,363,147	1,824,640	418,325	2,242,965
Unallocated liabilities			4,633			7,274
Total liabilities			2,367,780			2,250,239

KIMB contributed RM33.860 million (2011: RM22.923 million) to the Group’s results for the period under review, mainly due to its improved underwriting results.

- Overall gross premium grew by 3.6% year-on-year, as motor and non-motor portfolio expanded by 4.4% and 0.8% respectively.
- Overall loss ratio improved to 62.6% (2011: 71.0%), reflecting the results of more stringent risk selection and claims management effected in previous years.
- Management expense increased by RM3.885 million year-on-year, mainly due to higher production-related expenses.
- Total investment income (inclusive of realised and unrealised fair value gain/ (loss)) for the period amounted to RM27.954 million (2011: RM23.765 million), which translated to an investment yield, of 6.28% (2011: 5.27%).

Included in the net results under “Others” is finance cost which amounted to RM5.742 million (2011: RM5.046 million).

#### A9. Material events not reflected in the financial statements

On 12<sup>th</sup> April 2012, the Company entered into a conditional sale and purchase agreement with AmG Insurance Berhad (“AmG”) to dispose its 100% equity interest in KIMB to AmG.

Save as disclosed above, 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> March 2012 is as follow:

	RM'000
<u>Property and equipment</u>	
- approved and contracted for	<u>3,220</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 RM24.603 million for the period under review, a significant improvement from the RM14.299 million recorded for the corresponding period last year. This is mainly due to the stronger underwriting and investment performance. Gross premium income rose by 5.6% year-on-year, driven by the 6.0% and 4.1% year-on-year growth in the motor and non-motor segment respectively.

As at 31<sup>st</sup> March 2012, the net asset value of the Group improved to RM413.229 million (31<sup>st</sup> December 2011: RM389.128 million). The increase was mainly due to the RM24.603 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 RM34.783 million during the quarter, compared to RM9.362 million recorded in the preceding quarter. The improvement was mainly attributable to the stronger underwriting performance.

#### **B3. Prospects for the remaining of the financial year**

On 12<sup>th</sup> April 2012, the Company entered into a conditional sale and purchase agreement with AmG to dispose its 100% equity interest in KIMB to AmG. Upon completion of the disposal, the Company will focus on expanding its existing general insurance business in Indonesia and Thailand, whilst looking for new investment opportunities.

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

Not applicable.

**B5. Tax expense**

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 31/03/2012	Restated Preceding Year-to-date 31/03/2011	Current Year-to-date 31/03/2012	Restated Preceding Year-to-date 31/03/2011
Profit before tax	34,783	21,125	34,783	21,125
Current year tax expense	10,180	6,826	10,180	6,826
Deferred tax expense	-	-	-	-
Total tax expense	10,180	6,826	10,180	6,826
Effective tax rate (%)	29.3	32.3	29.3	32.3

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

**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 17<sup>th</sup> May 2012, the Company has decided not to pursue the proposed private placement.

On 12<sup>th</sup> April 2012, the Company announced the following proposals:

- i) Proposed disposal by the Company of its 100% equity interest in KIMB to AmG for a total cash consideration of RM1,550 million subject to adjustment; and
- ii) Proposed disposal of properties in Section 41, Township and District of Kuala Lumpur and State of Wilayah Persekutuan, Kuala Lumpur by KIMB to Tan Sri Dato' Paduka Kua Sian Kooi to be satisfied in cash

Save as disclosed above, there were no other corporate proposals announced as at 11<sup>th</sup> May 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 11<sup>th</sup> May 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> March 2012.

**B10. Earnings per share**

	Individual Quarter		Cumulative Quarter	
	Current Year	Restated Preceding Year	Current Year	Restated Preceding Year
	31/03/2012	31/03/2011	31/03/2012	31/03/2011
<b><u>Basic</u></b>				
Profit for the period attributable to ordinary shareholders (RM'000)	24,603	14,299	24,603	14,299
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)	1.65	0.96	1.65	0.96

**B11. Profit for the period**

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

	Individual Quarter		Cumulative Quarter	
	Current Year	Restated Preceding Year	Current Year	Restated Preceding Year
	31-Mar-2012	31-Mar-2011	31-Mar-2012	31-Mar-2011
	RM'000	RM'000	RM'000	RM'000
<b>Profit for the period is arrived at after (charging) / crediting:</b>				
Interest income	8,906	9,956	8,906	9,956
Other income including investment income	43,995	34,994	43,995	34,996
Interest expense	(5,439)	(5,046)	(5,439)	(5,046)
Depreciation and amortisation	(2,784)	(3,563)	(2,784)	(3,563)
Provision for and write off of receivable	(1,662)	(546)	(1,662)	(547)
Gain or (loss) on disposal of quoted investment	(2,397)	2,484	(2,397)	2,485
Gain or (loss) on disposal of properties, plants and equipments	(32)	103	(32)	103
Foreign exchange gain or loss	164	(2)	164	(2)

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 ended 31<sup>st</sup> March 2012.

## B12. Changes in Accounting Policies

As stated in Note A1, these are the Group's first consolidated financial statements prepared in accordance with MFRSs.

In preparing its opening MFRSs statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the previous FRSSs. An explanation of how the transition from the previous FRSSs to the new MFRSs has affected the Group's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany these tables.

### a) Reconciliation of financial position

	Note	Effect of transition to MFRSs			Effect of transition to MFRSs			Effect of transition to MFRSs		
		FRSSs RM'000	01-Jan-2011 RM'000	MFRSSs RM'000	FRSSs RM'000	31-Mar-2011 RM'000	MFRSSs RM'000	FRSSs RM'000	31-Dec-2011 RM'000	MFRSSs RM'000
<b>Assets</b>										
Property and equipment	A1.a	202,236	31,152	233,388	202,126	31,000	233,126	231,161	(1,862)	229,299
Goodwill		-	-	-	-	-	-	-	-	-
Investment property	A1.b	7,500	213	7,713	7,500	213	7,713	7,713	-	7,713
Investments in subsidiaries		-	-	-	-	-	-	-	-	-
Investments in associates	A1.c	13,279	(10,512)	2,767	12,930	(10,512)	2,418	14,668	(10,512)	4,156
Investments in debt and equity securities		-	-	-	-	-	-	-	-	-
- financial assets - HTM		63,278	-	63,278	63,229	-	63,229	62,123	-	62,123
- financial assets - AFS		975,928	-	975,928	1,002,937	-	1,002,937	947,342	-	947,342
- financial assets - HFT		141,482	-	141,482	173,027	-	173,027	156,298	-	156,298
- financial assets - Loans and receivables		522,158	-	522,158	498,808	-	498,808	469,171	-	469,171
Reinsurance assets		372,759	-	372,759	402,618	-	402,618	551,273	-	551,273
Insurance receivables		52,851	-	52,851	44,752	-	44,752	56,832	-	56,832
Other receivables, deposits and prepayments		35,187	-	35,187	42,160	-	42,160	80,333	-	80,333
Deferred acquisition costs		36,275	-	36,275	24,361	-	24,361	26,070	-	26,070
Deferred tax assets		1,172	-	1,172	1,195	-	1,195	3,670	110	3,780
Current tax assets		30,613	-	30,613	32,472	-	32,472	23,746	-	23,746
Cash and cash equivalents		129,632	-	129,632	82,444	-	82,444	130,771	-	130,771
<b>Total assets</b>		<b>2,584,350</b>	<b>20,853</b>	<b>2,605,203</b>	<b>2,590,559</b>	<b>20,701</b>	<b>2,611,260</b>	<b>2,761,171</b>	<b>(12,264)</b>	<b>2,748,907</b>
<b>Shareholders' equity</b>										
Share capital		375,000	-	375,000	375,000	-	375,000	375,000	-	375,000
Reserves	A1.a & c	10,938	2,504	13,442	10,518	2,504	13,022	36,689	(28,242)	8,447
Accumulated losses	B12.d.(ii)	(58,147)	16,841	(41,306)	(43,696)	16,689	(27,007)	(10,303)	15,978	5,675
		327,791	19,345	347,136	341,822	19,193	361,015	401,386	(12,264)	389,122
Minority interest		6	-	6	6	-	6	6	-	6
<b>Shareholders' equity</b>		<b>327,797</b>	<b>19,345</b>	<b>347,142</b>	<b>341,828</b>	<b>19,193</b>	<b>361,021</b>	<b>401,392</b>	<b>(12,264)</b>	<b>389,128</b>
<b>Liabilities</b>										
Insurance contract liabilities		1,669,152	-	1,669,152	1,655,860	-	1,655,860	1,690,838	-	1,690,838
Deferred tax liabilities	B12.d.(i)	5,928	1,508	7,436	5,743	1,508	7,251	-	-	-
Other financial liabilities		435,322	-	435,322	415,688	-	415,688	450,630	-	450,630
Insurance payables		29,630	-	29,630	67,675	-	67,675	87,373	-	87,373
Tax payables		249	-	249	23	-	23	629	-	629
Other payables		90,728	-	90,728	77,212	-	77,212	102,976	-	102,976
Staff retirement benefits		25,544	-	25,544	26,530	-	26,530	27,333	-	27,333
<b>Total liabilities</b>		<b>2,256,553</b>	<b>1,508</b>	<b>2,258,061</b>	<b>2,248,731</b>	<b>1,508</b>	<b>2,250,239</b>	<b>2,359,779</b>	<b>-</b>	<b>2,359,779</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,584,350</b>	<b>20,853</b>	<b>2,605,203</b>	<b>2,590,559</b>	<b>20,701</b>	<b>2,611,260</b>	<b>2,761,171</b>	<b>(12,264)</b>	<b>2,748,907</b>
<b>Net Assets Value per ordinary share of RM0.25 each (SEN)</b>		<b>22.02</b>		<b>23.32</b>	<b>22.97</b>		<b>24.26</b>	<b>26.97</b>		<b>26.14</b>

b) Reconciliation of profit or loss and other comprehensive income

	Note	Effect of transition to			Effect of transition to		
		FRSs	MFRSs	MFRSs	FRSs	MFRSs	MFRSs
		3 months ended 31/03/2011			12 months ended 31 December 2011		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross written premiums		270,313		270,313	1,109,729		1,109,729
Change in unearned premiums provision		(4,705)		(4,705)	(41,094)		(41,094)
Gross earned premiums		265,608		265,608	1,068,635		1,068,635
Premium ceded to reinsurers		(54,801)		(54,801)	(294,017)		(294,017)
Net earned premiums		210,807		210,807	774,618		774,618
Other income		39,504		39,504	177,021	(213)	176,808
Net claims incurred		(140,838)		(140,838)	(548,078)		(548,078)
Other expenses	A1.a	(87,840)	(152)	(87,992)	(342,185)	(650)	(342,835)
Operating profit		21,633		21,481	61,376		60,513
Share of net loss of equity accounted associate		(356)		(356)	(557)		(557)
Profit before taxation		21,277		21,125	60,819		59,956
Tax expense		(6,826)		(6,826)	(12,975)		(12,975)
<b>Net profit for the period</b>		<b>14,451</b>		<b>14,299</b>	<b>47,844</b>		<b>46,981</b>
<b>Other comprehensive income</b>							
Foreign currency translation differences for foreign operation		136		136	463		463
Fair value change of available-for-sale financial assets		(556)		(556)	(5,458)		(5,458)
Revaluation on properties		-		-	30,746	(30,746)	-
Other comprehensive income for the period		(420)		(420)	25,751		(4,995)
<b>Total comprehensive income for the period</b>		<b>14,031</b>		<b>13,879</b>	<b>73,595</b>		<b>41,986</b>
<b>Earnings per share (sen) - Basic</b>		<b>0.97</b>		<b>0.96</b>	<b>3.21</b>		<b>3.16</b>

c) Material adjustments to the statement of cash flows

There are no material differences between the statement of cash flows presented under the MFRSs and the statement of cash flows presented under FRSs.

d) Notes to reconciliations

i) Income tax

The changes that affected the deferred tax liabilities are as follows:

	01-Jan-2011 RM'000	31-Mar-2011 RM'000	31-Dec-2011 RM'000
Fair value as deemed cost of property, plant and equipment	1,508	1,508	(110)
<b>Increase / (Decrease) in deferred tax liabilities (assets)</b>	<b>1,508</b>	<b>1,508</b>	<b>(110)</b>

ii) Retained earnings

The changes that affected the retained earnings are as follows:

	Note	01-Jan-2011 RM'000	31-Mar-2011 RM'000	31-Dec-2011 RM'000
Fair value as deemed cost of property, plant and equipment	A1.a	29,644	29,492	28,994
Fair value as deemed cost of investment property	A1.b	213	213	-
Reclassification of translation reserve to retained earnings	A1.c	(2,504)	(2,504)	(2,504)
Fair value as deemed cost of investment in associate company	A1.d	(10,512)	(10,512)	(10,512)
<b>Increase in retained earnings</b>		<b>16,841</b>	<b>16,689</b>	<b>15,978</b>



**B13. 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> March 2012, into realised and unrealised profits, pursuant to the directive, is as follow:

	As At 31/03/2012	As At 31/12/2011 Restated
	<u>RM'000</u>	<u>RM'000</u>
Total retained earnings (accumulated losses) of the Group		
-Realised	(24,640)	(44,681)
-Unrealised	60,787	54,475
	<u>36,147</u>	<u>9,794</u>
Total share of retained earnings (accumulated losses) from associate		
-Realised	(5,869)	(4,119)
-Unrealised	-	-
	<u>30,278</u>	<u>5,675</u>
Consolidation adjustment	-	-
Total retained earnings (accumulated losses) as per financial statement	<u><u>30,278</u></u>	<u><u>5,675</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.

KUALA LUMPUR  
DATE: 17<sup>th</sup> May 2012  
File: KAB-31March2012Notes