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 30th June 2007.

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 annual financial statements for the year ended 30th June 2007 and applicable approved accounting standards in Malaysia.

A2. Preceding year's audit report

The annual financial statements of the Group for financial year ended 30th June 2007 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

During the year, the Group's subsidiary, Kurnia Insurans (M) Berhad ("KIMB"), in projecting the ultimate claim liabilities for the current year, has used a confidence level of 75%, which is higher than the confidence level of 65% used in the prior year. The higher confidence level is used to meet the requirement of the new Risk Based Capital ("RBC") framework issued by Bank Negara Malaysia ("BNM") which will come into effect on 1st January 2009. As a result of this, the net claims incurred amount for the year in the revenue account is higher by approximately RM60 million.

At the same time, KIMB conducted an operation efficiency review on its computers. The expected useful life of the computers, which was previously estimated to be 10 years, is now reduced to 5 years. The effect of this change on depreciation expense in current financial year is RM13.455 million.

Save as disclosed above, 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

During the first quarter of the financial year, the Company activated its share buy back program and purchased 11.577 million shares from the market for a total sum of RM11.971 million. The share buy back transactions were financed by internally generated funds. These shares are being held as treasury shares.

Apart from the above, 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 the Company during the current financial period under review.

A8. Segmental information

	Current Year-To-Date (30/06/2008)			Preceding Year-To-Date (30/06/2007)		
By business segment	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
Revenue						
Total revenue	1,201,311	1,781	1,203,092	1,181,343	2,632	1,183,975
Result						
(Loss) / Profit before tax	(308,551)	(5,854)	(314,405)	14,530	(1,149)	13,381
Tax expense			12,616			(10,854)
(Loss) / Profit after tax			(301,789)			2,527

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

On 11th September 2008, the Company entered into an agreement with CIMB Bank Berhad ("CIMB") for a term loan facility of up to RM400,000,000 for a tenure of 5 years from the date of its first drawing. The term loan facility is for the purpose of subscribing for up to RM400,000,000 nominal value of irredeemable convertible subordinated debt ("ICSD") issued by its subsidiary, KIMB on 19th September 2008. The term loan is secured by the entire issued and paid up share capital of KIMB held by the Company, and the entire ICSD subscribed by the Company.

The subscription proceeds received by KIMB from the issuance of the ICSD were utilised to meet the solvency margin requirements and simultaneously to fulfill the new risk based capital framework issued by BNM which will come into effect on 1st January 2009. The ICSD shall have a tenure of 5 years from the date of issuance, and bears interest at the rate of 1.5% per annum above the cost of fund of CIMB or such other amended rates.

The ICSD shall be convertible into fully paid ordinary shares of KIMB at the conversion price of RM1.00 per share ("Conversion Price") at any time during the tenure of the ICSD. All ICSD not converted during the tenure of the ICSD shall be automatically converted on the maturity date. On 19th September 2008, KIMB issued RM400,000,000 nominal value of ICSD to the Company, and on even date, RM170,000,000 nominal value of ICSD was converted into ordinary shares of KIMB at the Conversion Price.

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.

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 subsidiaries, KIMB and PT Kurnia Insurance Indonesia ("KII").

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 30th June 2008 is as follow:

	RM'000
Property and equipments	
- approved and contracted for	10,008
Equity investment in overseas	
- contracted for but subject to approval by relevant authorities	23,600

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

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

The Group incurred net loss of RM301.789 million (2007: RM2.527 million net profit) for the financial year ended 30th June 2008. It was mainly due to the underwriting deficit of RM401.723 million (2007: RM167.470 million).

Notwithstanding a 1.1% year-on-year improvement in gross premium income at RM1.120 billion (2007: RM1.107 billion), the Group's net premium reduced by 1.0% to RM1.009 billion (2007: RM1.020 billion) and the Group's earned premium dropped by 0.5% year-on-year to RM1.014 billion (2007: RM1.019 billion). Amidst the flattish top line results, the following key factors caused the underwriting deficit:

a) Claims expenses increased by 23.4% year-on-year to RM1,082.196 million (2007: RM876.988 million) representing a claims ratio of 106.7% (2007: 86.1%). This increase is principally due to ongoing efforts in strengthening KIMB's claims provisioning which amounted to RM1.429 billion as at 30th June 2008 (2007: RM1.212 billion). Consequently, KIMB has now significantly strengthened its overall claims reserves as well as complied with the more stringent claims reserving requirement under the RBC framework at 75% confidence level.

b) Management expenses increased by 11.1% year-on-year to RM235.262 million (2007: RM211.824 million), mainly due to the following expenses:

    i. Professional fees of RM15.854 million incurred on the Transformation of Operations and Performance ("TOP") program; and

    ii. Depreciation charges of RM13.455 million arising from the revision of the estimated useful life of computer equipment from 10 years to 5 years.

The above factors coupled with a significantly reduced net investment income of RM93.172 million (2007: RM182 million) resulted in the overall deficit in the General Insurance Revenue Account of the Group. The 48.8% year-on-year decline in investment and other income were due to the poor showing of Bursa Securities.

B1. Review of the performance of the Company and its subsidiaries (continued)

The Group's year-to-date results are mainly derived from KIMB. KII recorded gross premium of RM38.148 million and net loss of RM0.678 million for the financial year under review.

Notwithstanding the dismal performance of the Group, it is notable that the technical reserve for insurance business has strengthened 12.8% year-on-year to RM1.881 billion (2007: RM1.668 billion); representing an improvement in technical reserves on net premium written ratio of 186% (2007: 164%).

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

The Group suffered pre-tax loss of RM319.927 million for the quarter, compared to the RM33.800 million loss recorded in the preceding quarter. The drastic fluctuation on the results was mainly due to the underwriting loss of RM323.679 million recorded during the quarter, compared to RM48.024 million in preceding quarter, as a result of the following:

a) Claims expense increased by 119.6% quarter-on-quarter from RM217.721 million to RM478.112 million. Correspondingly, net claims ratio increased from 84.6% to 192.8% between quarters. The increase was mainly due to the efforts in strengthening KIMB's claims provisioning as explained in note B1.

b) Management expenses increased by 9.4% quarter-on-quarter from RM62.448 million to RM68.292 million for the current quarter, mainly attributable to the revision of the estimated useful life of computer equipment as explained in note B1.

Other than the major reduction in underwriting performance above, investment and other income declined by 59.9% quarter-on-quarter from RM15.927 million to RM6.383 million, due to the poor showing of Bursa Securities.

As mentioned in note B1, the Group's results for the quarter under review were also mainly contributed by KIMB. KII's contribution to the Group's gross premium and net loss for the quarter amounted to RM9.919 million and RM0.955 million respectively.

B3. Prospects for the next financial year

The Directors and Management undertook the difficult but essential measures in strengthening the technical reserves of KIMB during the close of the financial year ended 30th June 2008, well ahead of the RBC framework, which takes effect from 1st January 2009. Although this decision resulted in a net loss result for the Group, the Directors view this setback as a temporary phase for the Group's prospective benefit.

In this respect, KAB had on 19th September 2008, further injected cash amounting to RM400,000,000 into KIMB vide funds mentioned in note A10. With KIMB's issued and paid up ordinary share capital eventually raising to RM600,000,000, it is unrivalled and well poised to serve its policyholders and stakeholders.

With the step-up in provisioning arising from RBC requirements being addressed coupled with the ongoing TOP program initiatives aimed at improving KIMB's business operations and strengthening of the management team, the Board of Directors and Management expect the Group to record a much healthier performance for the financial year ending 30th June 2009.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Tax expense

RM'000	Individual Quarter Current Year 30/06/2008	Individual Quarter Preceding Year 30/06/2007	Cumulative Quarter Current Year-to-date 30/06/2008	Cumulative Quarter Preceding Year-to-date 30/06/2007
(Loss) / Profit before tax	(319,927)	(119,557)	(314,405)	13,381
Current year tax expense	(9,787)	(25,534)	(5,569)	14,007
Deferred tax expense	(7,047)	(3,153)	(7,047)	(3,153)
Total tax expense	(16,834)	(28,687)	(12,616)	10,854
Effective tax rate (%)	5.26	24.00	4.14	81.11

The effective tax rate of the Group for the period is lower than the statutory tax rate due to some deferred tax assets not recognised by the Group because the availability of future taxable profit against which the Group can utilise the benefits there from cannot be clearly determined at this stage.

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

a) The purchase and disposal of quoted securities by the Group other than in respect of its insurance subsidiaries, which are exempted from disclosure of this information are as follow:

			Individual Quarter RM'000	**Cumulative Quarter RM'000**
i)	Total purchase consideration of quoted securities	:	127	529
ii)	Total sales proceeds on disposal of quoted securities	:	45,263	45,263
iii)	Profit on disposal of quoted securities	:	62	62

b) As at 30th June 2008, there was no investment in quoted securities.

B8. Status of corporate proposals

On 11th April 2008, Kurnia Asia Pte Ltd ("KAPL"), the wholly-owned subsidiary of the Company had entered into an Equity Joint Venture Agreement with Canadia Investment Holding Plc ("CIHP") to establish a joint venture company under the name of Cana Kurnia Insurance Plc ("Cana Kurnia") in Cambodia to undertake general and life insurance business in Cambodia. The equity shareholdings of Cana Kurnia will be held by KAPL and CIHP in the proportion of 49% and 51% respectively. As at the date of this report, the application for the business license of Cana Kurnia is still pending the approval from the relevant authorities in Cambodia.

On 19th June 2008 and 5th September 2008, KAPL entered into a conditional share purchase agreement and supplementary share purchase agreement respectively with K.C.J. Company Limited to acquire a total of 23,120,000 ordinary shares of Baht 10 each in Kurnia Insurance (Thailand) Co Ltd ("KIT"), for a total cash consideration of Baht 155.60 million (RM15.6 million). Upon completion of the proposal, KAPL will hold approximately 26.27% equity interest in the share capital of KIT. As at the date of this report, the proposal is still pending the approval from the relevant authorities of Thailand.

Save as disclosed above, there were no new corporate proposals announced as at 30th September 2008 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

B9. Group borrowings

As at the end of the reporting period, 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 30th September 2008, 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 30th September 2008, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

B12. Proposed Dividend

The Directors do not propose any dividend for the quarter and period ended 30th June 2008.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/06/2008	30/06/2007	30/06/2008	30/06/2007
Basic				
(Loss) / Profit for the year attributable to ordinary shareholders (RM'000)	(303,093)	(90,870)	(301,789)	2,527
Weighted average no. of ordinary shares in issue ('000)	1,488,422	1,500,000	1,489,936	1,500,000
Basic earnings per ordinary share (sen)	(20.36)	(6.06)	(20.26)	0.17

SELANGOR DARUL EHSAN
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