

# 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 30<sup>th</sup> June 2008.

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 30<sup>th</sup> June 2008 and applicable approved accounting standards in Malaysia.

### **A2. Preceding year’s audit report**

The annual financial statements of the Group for financial year ended 30<sup>th</sup> June 2008 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**

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 the Company during the current financial period under review.

**A8. Segmental information**

By business segment	Current Year-To-Date (30/09/2008)			Preceding Year-To-Date (30/09/2007)		
	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
<b>Revenue</b>						
Total revenue	304,086	409	304,495	290,224	527	290,751
<b>Result</b>						
(Loss) / Profit before tax			(12,080)			20,918
Tax expense			28			6,567
(Loss) / Profit after tax			(12,108)			14,351

**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**

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, Kurnia Insurans (M) Berhad ("KIMB") and PT Kurnia Insurance Indonesia ("KII").

**A13. Capital commitments**

Capital commitments not provided for in the interim financial report as at 30<sup>th</sup> September 2008 is as follow:

	RM'000
<u>Property and equipments</u>	
- approved and contracted for	<u>13,294</u>
<u>Equity investment in overseas</u>	
- contracted for but subject to approval by relevant authorities	<u>23,600</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 revenue amounting to RM304.495 million (Q1 '08: RM290.751 million) for the first quarter ended 30<sup>th</sup> September 2008. The growth in the Group's revenue was mainly attributable to the year-on-year improvement in gross premium and net premium at RM282.551 million (Q1 '08: RM268.524 million) and at RM253.980 million (Q1 '08: RM244.124 million) respectively.

The Group achieved a turnaround in its insurance business, recording an underwriting surplus of RM2.670 million for the 3 months ended 30<sup>th</sup> September 2008 (KIMB: RM3.530 million underwriting surplus; KII: RM0.860 million underwriting deficit), after four immediate preceding quarters of consolidated underwriting deficit. Notwithstanding the increase in management expenses by 2.7% year-on-year to RM52.842 million (Q1 '08: RM51.441 million), total claims expenses decreased by 10.0% year-on-year to RM172.866 million (Q1 '08: RM192.175 million) representing a claims ratio of 68.0% (Q1 '08: 75.4%) resulting in the said underwriting performance. The increase in management expenses was mainly due to the increase in personnel expenses resulting from the expanded senior management team in KIMB whereas the lower claims expenses incurred during the quarter was mainly due to improved efforts at claims management.

Despite the improvement in revenue and underwriting performance, the Group incurred net loss of RM12.108 million (Q1 '08: RM14.351 million net profit) for the same period; mainly due to the following factors:

- a. net loss of RM7.988 million (Q1 '08: RM34.861 million net income) incurred in investment activities due to the poor showing of Bursa Securities which mark-to-market provisions accounted for RM26.765 million; and
- b. finance expenses of RM4.148 million in relation to stamp duties and facility fees on the RM400 million term loan taken by the Company, which in turn was utilised to subscribe for the irredeemable convertible subordinated debt issued by KIMB.

The Group's year-to-date results are mainly derived from KIMB. KII recorded gross premium of RM12.979 million and net loss of RM0.470 million for the financial period under review.

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

The Group achieved an underwriting surplus of RM2.670 million for the quarter ended 30<sup>th</sup> September 2008 compared to an underwriting deficit of RM323.679 million incurred during the preceding quarter ended 30<sup>th</sup> June 2008. The improved underwriting performance was principally due to the following factors:

- a. claims expenses amounted to RM172.866 million during the 3 months ended 30<sup>th</sup> September 2008 compared to RM478.112 recorded in the preceding quarter, representing 63.8% quarter-on-quarter decline. The claims ratio for the period under review was 68.0% and management is of the opinion that the underwriting experience of the Group has been brought down to a more reasonable level.
- b. management expenses dropped 22.6% from the amount incurred during the preceding quarter of RM68.292 million to RM52.842 million during the quarter under review ended 30<sup>th</sup> September 2008. During the preceding quarter, the management expenses of the Group was weighed down by professional fees related to the Transformation of Operation and Performance (TOP) program and accelerated depreciation expenses arising from revision of the estimated useful life of computer equipment.

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

Notwithstanding the improved insurance business performance, the Group incurred a pre-tax loss of RM12.080 million for the quarter under review ended 30<sup>th</sup> September 2008 (Q4 '08: RM319.927 million pre-tax loss). The pre-tax loss incurred during the 3 months period ended 30<sup>th</sup> September 2008 was mainly due to net loss incurred in investment activities and finance expenses in relation to the RM400 million term loan, as mentioned in Section B1. During the preceding quarter ended 30<sup>th</sup> June 2008, the Group recorded a net investment income of RM6.383 million.

As mentioned in Section B1, the Group's results for the quarter under review were mainly contributed by KIMB. KII's contribution to the Group's gross premium and net loss for the quarter under review amounted to RM12.979 million (Q4 '08: RM9.919 million) and RM0.470 million (Q4 '08: RM0.955 million net loss) respectively.

**B3. Prospects for the current financial year**

During the preceding period ended 30<sup>th</sup> June 2008, KIMB has taken the decision to comply with the step-up provisioning requirement under Risk Based Capital (RBC) framework and significantly strengthened its technical reserves position. These initiatives coupled with the ongoing TOP program have begun to bear fruit. KIMB has successfully turnaround its insurance business during the first quarter for the current financial year ending 30<sup>th</sup> June 2009 in terms of more proactive risk selection of its businesses and strengthening of its claims managements. The Board of Directors and Management expect to record further improvement in the insurance business performance of the Group.

However, the investment income of the Group was beset by unfavourable stock market conditions on Bursa Malaysia during the first quarter of the current financial year ending 30<sup>th</sup> June 2009. In this connection, Management has taken measures to reallocate its investment portfolio to a relatively more defensive position to mitigate adverse impact arising from the very volatile conditions experienced in the period under review up to the date of this report.

Barring any other unforeseen circumstances, the Board of Directors and Management expect the Group to record a healthier performance for the remaining period of the current financial year ending 30<sup>th</sup> June 2009.

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

Not applicable.

**B5. Tax expense**

	Individual Quarter		Cumulative Quarter	
	Current Year 30/09/2008	Preceding Year 30/09/2007	Current Year-to-date 30/09/2008	Preceding Year-to-date 30/09/2007
RM'000				
(Loss) / Profit before tax	(12,080)	20,918	(12,080)	20,918
Current year tax expense	28	6,567	28	6,567
Deferred tax expense	-	-	-	-
Total tax expense	28	6,567	28	6,567
Effective tax rate (%)	(0.23)	31.39	(0.23)	31.39

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**

There were no purchases or disposal of quoted securities by the Group other than by the insurance subsidiaries in the normal course of its business activities, which are exempted from the disclosure of this information. As at 30<sup>th</sup> September 2008, there was no investment in quoted securities.

**B8. Status of corporate proposals**

On 11<sup>th</sup> 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 businesses 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 19<sup>th</sup> June 2008, 5<sup>th</sup> September 2008 and 27<sup>th</sup> November 2008, KAPL entered into share purchase agreements with K.C.J. Company Limited to acquire a total of 21,999,998 ordinary shares of Baht 10 each in Kurnia Insurance (Thailand) Co., Ltd (“KIT”), for a total cash consideration of Baht 148.062 million (RM16.465 million based on the prevailing exchange rate of Baht 100: RM11.12). Upon completion of the proposal, KAPL will hold approximately 25% equity interest in the share capital of KIT. The proposal is currently pending completion.

Save as disclosed above, there were no new corporate proposals announced as at 27<sup>th</sup> November 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 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>400,000</u>

**B10. Off balance sheet risk**

The Group did not have any financial instruments with off balance-sheet risk as at 27<sup>th</sup> November 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 27<sup>th</sup> November 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 30<sup>th</sup> September 2008.

**B13. Earnings Per Share**

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/9/2008	30/09/2007	30/09/2008	30/09/2007
<b>Basic</b>				
(Loss) / Profit for the year attributable to ordinary shareholders (RM'000)	(12,108)	14,351	(12,108)	14,351
Weighted average no. of ordinary shares in issue ('000)	1,488,423	1,494,491	1,488,423	1,494,491
Basic earnings per ordinary share (sen)	(0.81)	0.96	(0.81)	0.96

SELANGOR DARUL EHSAN  
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