

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 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 30th 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 30th 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 Kurnia Asia Berhad (“the Company”) during the current financial period under review.

A8. Segmental information

By business segment	Current Year-To-Date (31/12/2008)			Preceding Year-To-Date (31/12/2007)		
	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
Revenue						
Total revenue	591,633	807	592,440	592,089	974	593,063
Result						
(Loss) / Profit before tax	(1,087)	(10,877)	(11,964)	40,842	(1,520)	39,322
Tax expense			(32)			(12,602)
(Loss) / Profit after tax			(11,996)			26,720

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

On 26th December 2008, the Group has acquired 25% equity interest of Kurnia Insurance (Thailand) Co. Ltd. ("KIT") via its wholly-owned subsidiary, Kurnia Asia Pte Ltd ("KAPL").

Save as disclosed above, 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") and its associate company, KIT.

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 31st December 2008 is as follow:

	RM'000
<u>Property and equipments</u>	
- approved and contracted for	<u>9,415</u>
<u>Equity investment in overseas</u>	
- contracted for but subject to approval by relevant authorities	<u>8,000</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's gross premium and net premium income declined year-on-year by 0.3% and 2.7% to RM548.820 million and RM486.038 million respectively mainly due to the more stringent risk selection practice adhered by KIMB. Earned premium declined marginally by 0.4% year-on-year to RM506.808 million.

The Group recorded an underwriting surplus of RM8.403 million for the 6 months ended 31st December 2008 (KIMB: RM9.190 million surplus; KII: RM0.787 million deficit), a turnaround from the underwriting deficit of RM30.020 million recorded in the corresponding period of the previous financial year. The improvement was mainly due to the year-on-year reduction in claims expenses from RM383.363 million to RM345.163 million due to better claims management. As a result, claims ratio improved from 75.9% to 68.1%.

Despite the improvement in the underwriting performance, the Group incurred a net loss of RM11.996 million (Q2 '08: RM26.720 million net profit) for the same period, mainly due to the following factors:

- a. net loss of RM5.320 million (Q2 '08: RM70.862 million net income) recorded in investment activities due to the poor showing in equity market, whereby realized loss of RM35.706 million and mark-to-market provisions of RM13.184 million was offset by income generated from dividend and fixed income securities. The realized loss was a result of the reallocation of the investment portfolio mix as alluded in the preceding quarterly announcement; and
- b. finance expenses of RM10.684 million (Q2 '08: nil) in relation to stamp duty, facility fee and interest expense 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 RM29.426 million and net loss of RM0.284 million for the financial period under review. No contribution was taken in from the Group's equity holding of 25% in KIT during the current period as the acquisition of KIT was only completed on 26th December 2008.

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

As alluded to in the preceding quarterly announcement, the Group has put in place more stringent risk selection in its underwriting business to ensure that its underwriting margin is positive. In that connection, businesses which bottom-line contributions were questionable have been turned away. Consequently, the Group's gross premium and net premium have dropped from the previous quarter by 5.8% to RM266.269 million and 8.6% to RM232.058 million respectively. In line with the lower premium income as well as the business volume, various underwriting cost elements, i.e. commission expenses, management expenses and claims expenses also reduced quarter-on-quarter accordingly.

Despite the lower business performance, the Group recorded pre-tax profit of RM0.116 million for the quarter ended 31st December 2008, an improvement from the pre-tax loss of RM12.080 million in the preceding quarter. The following are major factors contributing to the bottom line result:

- a. underwriting surplus improved by 114.7% quarter-on-quarter, from RM2.670 million to RM5.733 million; and
- b. investment and other income improved by 133.4% quarter-on-quarter, from a net loss of RM7.988 million to a net gain of RM2.668 million, as Management's decision to reallocate its investment portfolio to a relatively more defensive position to mitigate adverse impact from the volatile financial market during the quarter begun to yield desired results.

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

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 RM16.447 million (Q1 '09: RM12.979 million) and RM0.754 million (Q1 '09: RM0.470 million net loss) respectively. No contribution was taken in from the Group's equity holding of 25% in KIT during the current period as the acquisition of KIT was only completed on 26th December 2008.

B3. Prospects for the current financial year

Notwithstanding the various challenges in the local and global financial markets, the Group maintained its momentum towards achieving a more encouraging result for the current financial year ending 30th June 2009.

Based on the progress to-date and barring 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 30th June 2009.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Tax expense

	Individual Quarter		Cumulative Quarter	
	Current Year 31/12/2008	Preceding Year-to-date 31/12/2007	Current Year-to-date 31/12/2008	Preceding Year-to-date 31/12/2007
RM'000				
(Loss) / Profit before tax	116	18,404	(11,964)	39,322
Current year tax expense	4	6,035	32	12,602
Deferred tax expense	-	-	-	-
Total tax expense	4	6,035	32	12,602
Effective tax rate (%)	3.45	32.79	(0.27)	32.05

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 as 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 and associated company in the normal course of its business activities, which are exempted from the disclosure of this information. As at 31st December 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 businesses in Cambodia (“Proposed Joint Venture”). The equity shareholdings of Cana Kurnia will be held by KAPL and CIHP in the proportion of 49% and 51% respectively. On 19th October 2008, KAPL had written to CIHP to defer its intention to embark on the Proposed Joint Venture pending improvement of the contagion effects of the global financial crisis and other factors.

Save as disclosed above, there were no new corporate proposals announced as at 23rd February 2009 (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 23rd February 2009, 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 23rd February 2009, 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 31st December 2008.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Basic				
(Loss) / Profit for the year attributable to ordinary shareholders (RM’000)	112	12,369	(11,996)	26,720
Weighted average no. of ordinary shares in issue (’000)	1,488,423	1,488,423	1,488,423	1,491,440
Basic earnings per ordinary share (sen)	0.01	0.83	(0.81)	1.79