

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 (30/06/2009)			Preceding Year-To-Date (30/06/2008)		
	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	1,136,626	1,093	1,137,719	1,201,311	1,781	1,203,092
Result						
Profit / (Loss) before tax			39,068			(314,405)
Tax expense			17,982			12,616
Profit / (Loss) after tax			57,050			(301,789)

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 30th June 2009 is as follow:

	RM'000
<u>Property and equipments</u>	
- approved and contracted for	<u>15,188</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 RM57.050 million for the year ended 30th June 2009, as opposed to net loss of RM301.789 million recorded last year. The significant improvement was mainly driven by the turnaround in operating profits, which amounted to RM38.806 million and net tax benefits, which amounted to RM17.982 million as elaborated in Section B5 below. The said operating profits was arrived at after taking into account finance expenses of RM16.545 million, management costs of RM7.896 million and an impairment loss of RM5.0 million for the goodwill arising from the investment in KII.

From the General Insurance Revenue Account, the Group's gross premium declined year-on-year by 6.1% to RM1.052 billion from RM1.120 billion. The gross premium of the Group declined by virtue of its more stringent risk selection practice. Notwithstanding the drop in gross premium, the Group's underwriting performance surged to a surplus of RM20.821 million for the year ended 30th June 2009 compared to a deficit of RM401.723 million recorded in last year.

The significant turn around in the general insurance businesses was due to the following improvements:

- claims expenses decreased significantly year-on-year to RM648.296 million representing improvement in claims ratio to a normalized level of 65.9% as a result of more stringent claims management practices in KIMB during FYE 30 June 2009 after having strengthened KIMB's overall claims reserves the year before; and
- management expenses declined year-on-year by RM21.762 million to RM213.500 million representing an improvement in management cost ratio to 23.1% due to various cost management initiatives that have begun to show positive impact.

Despite the poor equity market condition experienced during the year ended 30th June 2009, the Group recorded a net investment and other income of RM47.785 million owing to the relatively defensive investment strategies taken by the Group after taking into account principally the impairment loss of RM5.034 million on property, plant and equipments.

The Group's year-to-date results are mainly derived from KIMB. KII recorded net loss of RM1.162 million for the financial period under review. The Group also equity-accounted its share of its associate company, KIT's net loss amounting to RM0.831 million for the relevant portion of the period under review since its inception in the Group.

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 RM24.574 million for the quarter under review, a slight drop from the pre-tax profit of RM26.458 million recorded in the preceding quarter. The drop was mainly attributable to the impairment loss of RM5.0 million as explained in Section B1 concerning KII which has been cushioned by the quarter-to-quarter improvement in underwriting surplus from RM4.125 million to RM8.293 million. The Group's gross premium also declined quarter-on-quarter by 4.8% to RM245.472 million by virtue of the more stringent risk selection practice adhered to by KIMB.

Investment and other income dropped marginally quarter-on-quarter from a net gain of RM29.584 million to RM27.691 million, after taking into accounts the impairment loss concerning property, plant and equipments as explained in Section B1 above.

As mentioned in Section B1, the Group's results for the quarter under review were mainly contributed by KIMB. KII's gross premium and pre-tax loss for the quarter under review amounted to RM10.933 million and RM1.387 million respectively. The Group also equity-accounted its share of its associate company, KIT's net loss amounting to RM0.254 million for the period under review.

B3. Prospects for the next financial year

The Board of Directors had on 24th June 2009 announced that the Group would close its next financial period on 31st December 2009, after the close of the financial year just ended 30th June 2009.

With KIMB back on a profitable track with more favourable results from the on-going Transformation of Operations and Performance (TOP) program, efforts are now also focused on improving the performances of the foreign general insurance businesses of the Group. With the aim of generating good returns from all three general insurance businesses, the Board of Directors is confident that the Group would be well placed to push forward towards becoming a leading financial services group in the region.

Barring unforeseen circumstances and with anticipated improvement in the general business climate and stock market conditions in the region, the Board of Directors is confident that the Group is on track to achieve sustainable growth and strengthening of its financial position. The Board of Directors expects the Group to continue with the current financial improvement trend for the financial period ending 31st December 2009.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Tax expense

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 30/06/2009	Preceding Year-to-date 30/06/2008	Current Year-to-date 30/06/2009	Preceding Year-to-date 30/06/2008
Profit / (Loss) before tax	24,574	(319,927)	39,068	(314,405)
Current year tax expense	(1,486)	(9,787)	(1,453)	(5,569)
Deferred tax expense	(16,595)	(7,047)	(16,529)	(7,047)
Total tax expense	(18,081)	(16,834)	(17,982)	(12,616)
Effective tax rate (%)	(73.58)	5.26	(40.81)	4.01

The Group's effective tax rate differs from the statutory tax rate as its principal subsidiary recognised tax benefits arising from tax losses brought forward from the previous financial year.

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 30th June 2009, 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”). On 31st March 2009, the Company announced that after due deliberation by the Board of Directors of CIHP and KAPL, both parties have mutually agreed to defer their intentions 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 24th August 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 24th August 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 24th August 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 Board of Directors does not propose any dividend for the quarter and period ended 30th June 2009.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/06/2009	30/06/2008	30/06/2009	30/06/2008
<u>Basic</u>				
Profit / (Loss) for the year attributable to ordinary shareholders (RM’000)	42,655	(303,093)	57,050	(301,789)
Weighted average no. of ordinary shares in issue (’000)	1,488,423	1,488,423	1,488,423	1,489,936
Basic earnings per ordinary share (sen)	2.87	(20.36)	3.83	(20.26)