

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 2009.

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 2009, except for the following:

- a) change in accounting policy in the valuation methodology in claims reserves, which are applied retrospectively;
- b) change in accounting policy due to change from straight-line method to effective yield method. It has been applied prospectively on the basis that the amount is immaterial and it is impractical to apply retrospectively; and
- c) FRS8 Operating Segments that the Group has adopted since it became effective on 1st July 2009.

BNM issued the Risk-Based Capital Framework (“RBC Framework”) for implementation by insurers with effect on 1 January 2009. The insurance subsidiary of the Company has adopted the accounting policies on investments, unexpired risks and insurance liabilities as specified in the RBC Framework for the annual period beginning on 1 July 2009. The financial impact arising from the adoption of RBC Framework on investments has been reversed at the Group level as KAB not being an insurance company, and not having adopted FRS 139, has different accounting policies on investments.

A2. Preceding year’s audit report

The annual financial statements of the Group for financial year ended 30th June 2009 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

	Current Year-to-date (31/12/2009)			Preceding Year-to-date (31/12/2008)		
	Underwriting business in Malaysia	Others	Total	Underwriting business in Malaysia	Others	Total
By operating segments						
Operating revenue	496,339	21,205	517,544	561,222	31,218	592,440
Segment results	55,574	(12,548)	43,026	(7,885)	(4,111)	(11,996)
Share of profit from associate company			49			-
Net profit			43,075			(11,996)

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”) and its associate company, Kurnia Insurance (Thailand) Co., Ltd. (“KIT”).

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 31st December 2009 is as follow:

	RM’000
<u>Property and equipments</u>	
- approved and contracted for	<u>11,909</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 RM43.075 million for the period ended 31st December 2009, as opposed to a net loss of RM11.996 million recorded last year. The significant improvement was mainly driven by a very strong turnaround performance on the Group's investment portfolio year-on-year.

The Group recorded a net investment income of RM58.179 million for the period under review, as compared to the net investment loss of RM9.490 million in the preceding year. While the comparative period was substantially weighed down by mark-to-market losses, the recovery of equity market during the period under review had allowed the Group to write-back some of the mark-to-market losses provided previously.

On the underwriting end, the Group's gross premium and earned premium declined year-on-year by 13.6% and 13.9% to RM473.938 million and RM436.548 million respectively due to its more stringent risk selection practice. Accordingly, the Group's underwriting surplus declined to RM4.266 million for the period ended 31st December 2009.

The Group's year-to-date results are mainly derived from KIMB. KAB's foreign subsidiary, KII recorded net loss of RM0.500 million for the financial period under review. The share of profit from the equity-accounted associate company, KIT amounted to RM0.049 million.

As at 31 December 2009, the net asset value of the Group improved to RM300.085 million (30 June 2009: RM206.905 million).

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 RM18.698 million for the quarter under review, compared to the RM32.623 million recorded in the preceding quarter, as both underwriting and investment performance slowed down.

Whilst the Group's gross premium improved by 4.9% to RM242.623 million quarter-on-quarter, earned premium declined by 3.5% to RM214.379 million. Accordingly, underwriting surplus declined from RM8.293 million to RM0.582 million, offsetting improvement achieved in various underwriting outgo.

Investment and other income declined quarter-on-quarter from a net gain of RM34.023 million to RM24.156 million as the preceding quarter had benefited from the write back of mark-to-market losses previously recognised as equity market recovered.

The Group's results for the quarter under review were mainly contributed by KIMB. KII's gross premium and pre-tax profit for the quarter amounted to RM8.070 million and RM0.501 million respectively. The share of profit from the equity-accounted associate company, KIT, amounted to RM0.195 million for the quarter.

B3. Prospects for the next financial year

The Group maintained its momentum in its turnaround journey in strengthening its financial performance and position.

Barring unforeseen circumstances, the Board of Directors expects the Group to record a sustainable performance for the next financial year ending 31st December 2010.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Tax expense

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 31/12/2009	Preceding Year-to-date 31/12/2008	Current Year-to-date 31/12/2009	Preceding Year-to-date 31/12/2008
Profit / (Loss) before tax	18,698	116	51,321	(11,964)
Current year tax expense	(324)	4	84	32
Deferred tax expense	8,162	-	8,162	-
Total tax expense	7,838	4	8,246	32
Effective tax rate (%)	41.9	3.45	16.1	(0.27)

The Group's effective tax rate differs from the statutory tax rate as its principal subsidiary utilized 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 period- 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 2009, there was no investment in quoted securities.

B8. Status of corporate proposals

There were no new corporate proposals announced as at 17th February 2010 (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 at 17th February 2010, 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 17th February 2010, 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 31st December 2009.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Basic				
Profit / (Loss) for the year attributable to ordinary shareholders (RM'000)	10,860	112	43,075	(11,996)
Weighted average no. of ordinary shares in issue ('000)	1,488,423	1,488,423	1,488,423	1,488,423
Basic earnings per ordinary share (sen)	0.73	0.01	2.89	(0.81)

SELANGOR DARUL EHSAN
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