

KURNIA ASIA BERHAD

Part A – Explanatory Notes Pursuant to FRS134₂₀₀₄

A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with FRS 134₂₀₀₄ – 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 June 2005.

The 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 June 2005 and applicable approved accounting standards in Malaysia.

The Consolidated Condensed Financial Statements should be read in conjunction with the accompanying explanatory notes attached to the financial statements.

The comparative figures presented in the Condensed Consolidated Financial Statement include only post-acquisition results of the subsidiary company, Kurnia Insurans (Malaysia) Berhad (“KIMB”), reflected on line-by-line basis.

This format is different from that presented in the Group’s quarterly Condensed Consolidated Financial Statement for quarter ended 31 December 2004 whereby the pre-acquisition results was deducted from the “Profit After Taxation” on net basis. Reconciliation on comparative figures for Condensed Consolidated Income Statement are presented below:

	Individual Quarter (31/12/2004)			Cumulative Quarter (31/12/2004)		
	Previously Reported RM'000	Pre-acquisition RM'000	Post-acquisition RM'000	Previously Reported RM'000	Pre-acquisition RM'000	Post-acquisition RM'000
Operating Revenue	298,321	100,126	198,195	591,567	393,372	198,195
Surplus transferred from Insurance Revenue A/C	47,513	20,315	27,198	96,107	68,909	27,198
Interest income	124	-	124	124	-	124
Profit from operation before taxation	47,637	20,315	27,322	96,231	68,909	27,322
Taxation	(15,012)	(4,459)	(10,553)	(28,387)	(17,834)	(10,553)
Profit after taxation	32,625	15,856	16,769	67,844	51,075	16,769
Pre-acquisition profit	(15,856)			(51,075)		
Profit attributable to Group	16,769			16,769		

A2. Preceding year’s audit report

The annual financial statements of the Group for financial year ended 30 June 2005 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 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

On 23 September 2005, the Company paid an interim gross dividend of 9.027 sen per ordinary share less 28% income tax, totaling RM97.5 million in respect of the financial year ending 30 June 2006.

A8. Segmental information

By business segment	Current Year - To-Date (31/12/2005)			Preceding Year - To-Date (31/12/2004) #		
	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	570,843	1,270	572,113	198,071	124	198,195
Result						
Profit /(Loss) before tax	82,267	(938)	81,329	27,198	124	27,322
Tax expense			(24,416)			(10,553)
Profit after tax			56,913			16,769

The comparative figures consist only post-acquisition results of the subsidiary company, KIMB. The subsidiary was acquired on 5 November 2004.

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 under review 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 subsidiary, KIMB.

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 31 December 2005 is as follow:

	RM'000
Property, plant and equipments - approved and contracted for	6,691
	<u>6,691</u>

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

B1. Review of the performance of the Company and its principal subsidiary

The Group's year-to-date and current quarter results are derived mainly from KIMB, the principal subsidiary of the Company.

Group's performance

The Group recorded a net profit of RM19.726 million for current quarter and RM56.913 million for period ended 31 December 2005, which translated into earnings per ordinary share (EPS) of 1.32 sen and 3.79 sen respectively.

These results are not comparable to the EPS of 6.92 sen as reported by the Group for both the corresponding quarter and period in preceding year, which consist only post-acquisition (i.e. from November 2004 and December 2004) results of the subsidiary, KIMB. The acquisition was effected on 05 November 2004. Therefore, KIMB's quarter and year-to-date results are analysed as below to provide a more comparable review.

The Group's net assets value (NAV) per ordinary share grew from 32.70 sen at the end of preceding quarter to 34.01 sen at the end of current quarter, while its total assets has remained unchanged from end of preceding quarter at RM1.906 billion.

Subsidiary's performance

KIMB recorded a year-to-date net profit of RM57.973 million for the 6 months ended 31/12/2005, representing a 14.4% drop from the RM67.720 million for the corresponding period in the preceding year. The lower net profit recorded was attributed to the significant drop in net investment and other income and a slight drop in underwriting surplus.

Year-to-date underwriting surplus dropped by 8.3% from RM62.251 million for the 6 months ended 31/12/2004 to RM57.112 million for the 6 months ended 31/12/2005, mainly due to:

- KIMB registered a 4.8% decline in gross premium income from RM565.183 million for the 6 months ended 31/12/2004 to RM538.265 million for the 6 months ended 31/12/2005. This followed its conscious efforts taken during first half period of FY2006 in streamlining its underwriting portfolio by reducing non-profitable business lines to further enhance profitability over the longer term. Tighter credit control measures taken have also contributed to the drop in non-motor premium income, with the exception of medical insurance premium, which almost doubled that of the previous year corresponding period.
- KIMB recorded net claims incurred of RM328.486 million for the 6 months ended 31/12/2005, which is 8.9% higher than the RM301.565 million for the 6 months ended 31/12/2004. Consequently, it gave rise to a higher claims ratio of 62.4% compared to 59.6% in the preceding year. The increase is mainly attributed to the higher number of claims recorded during the period, particularly on theft claims.

Notwithstanding the higher claims ratio recorded year-to-date, the claims experience remains well under control. Initiatives taken to increase premium income and the maintaining of effective claims controls are expected to moderate the claims ratio over the next two quarters.

Net investment and other income dropped significantly by 25.7% from RM33.856 million for the 6 months ended 31/12/2004 to RM25.155 million for the 6 months ended 31/12/2005. This is mainly due to lower equity market performance, which improved by only 1.3% (as measured by the Kuala Lumpur Composite Index "KLCI" performance) for the 6 months ended 31/12/2005 as compared with a 10.7% gain for the corresponding period ended 31/12/2004.

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

The Group posted a profit before tax of RM28.464 million for the quarter under review as compared to RM52.865 million in the preceding quarter.

The lower profit recorded in this quarter was mainly attributed to:

- the higher management expenses incurred during the quarter, following the provision made for staff bonus, higher advertisement and promotional expenses as well as implementation cost on various e-initiatives like e-Policy and e-Payment which are expected to benefit the Group over the long run via improved efficiency; and
- additional provision for diminution in value of quoted investments which amounted to approximately RM10 million at the end of 31 December 2005. For the quarter ended 31/12/2005, KIMB posted net investment and other income of RM8.205 million as compared with RM16.950 million, a reduction of RM8.745 million. This was in-line with the weaker performance of KLCI, which during the quarter fell by 3% to approximately 900 points.

B3. Prospects for the current financial year

Recognising the market challenges ahead, the Group has initiated various management initiatives and strategies with the aim of improving its competitiveness and long-term profitability. In addition to investments in the necessary computer equipment and other relevant capital expenditure, initial costs on such initiatives are expected to impact on current year earnings before the benefits in the form of lower operating cost, higher market share and higher yield on investments are realized over the near future.

Apart from the above, and barring unforeseen circumstances, the Directors expect the Group's results for the financial year 2006 to be satisfactory.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Taxation

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 31/12/2005	Preceding Year 31/12/2004	Current Year-to-date 31/12/2005	Preceding Year-to-date 31/12/2004
Profit before tax	28,464	27,322	81,329	27,322
Current year taxation	8,738	10,553	24,416	10,553
Deferred taxation	-	-	-	-
Total taxation expense	8,738	10,553	24,416	10,553
Effective tax rate	30.70	38.62	30.02	38.62

The effective tax rate of the Group for the period is higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.

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

The following are the particulars of purchase or disposal of quoted securities by the Group other than in respect of its insurance subsidiary which are exempted from disclosure of this information:

- a. Investment in quoted securities as at 31 December 2005:

	RM'000
(i) At cost	: 45,000
(ii) At book value	: 44,653
(iii) At market value	: 44,653

B8. Status of corporate proposals

- (i) The status of the utilization of the proceeds from Rights Issue exercise, which was completed in November 2004, as at the date of this announcement is as follows:

	As proposed <u>RM'000</u>	Actual <u>RM'000</u>
Total proceeds raised	<u>62,031</u>	<u>62,031</u>
Utilisation of Rights Issue proceeds	As proposed <u>RM'000</u>	Actual <u>RM'000</u>
Working capital	60,031	45,000
Listing expenses	<u>2,000</u>	<u>2,460</u>
	<u><u>62,031</u></u>	<u><u>47,460</u></u>

B9. Group borrowings

As at the date of this report, 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 15 February 2006, 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 its principal subsidiary's business) as at 15 February 2006, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

B12. Proposed Dividend

During the last quarter, the Company proposed and declared an interim gross dividend of 9.027 sen per ordinary share less 28% income tax, totaling RM97.5 million in respect of the financial year ending 30 June 2006. The dividend was paid on 23 September 2005 as mentioned in Note A7 above.

The Directors do not propose any dividend for the quarter ended 31 December 2005.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2005	31/12/2004	31/12/2005	31/12/2004
Basic				
Net profit attributable to ordinary shareholders (RM'000)	19,726	16,769	56,913	16,769
Weighted average no. of ordinary shares in issue ('000)	1,500,000	242,168	1,500,000	242,168
Basic earnings per ordinary share (sen)	1.32	6.92	3.79	6.92

By Order of the Board
Chung Pei Pei
Company Secretary

SELANGOR DARUL EHSAN
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