

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 financial statements for the year ended 30 June 2005 and applicable approved accounting standards in Malaysia.

A2. Preceding year’s audit report

The annual financial statements of the Company and its subsidiary 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 9.027sen per ordinary share less 28% income tax, totaling RM97.5 million in respect of the financial year ended 30 June 2006.

A8. Segmental information

	Current Quarter			Current Year-To-Date		
	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
By business segment						
Revenue Revenue	294,883	1,390	296,273	1,162,887	3,448	1,166,335
Result (Loss)/ Profit before tax	(70,795)	687	(70,108)	71,360	(760)	70,600
Taxation			21,397			(20,744)
(Loss)/ Profit after tax			(48,711)			49,856

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 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, i.e. Kurnia Insurans (Malaysia) Berhad ("KIMB").

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 30 June 2006 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	<u>8,488</u>

PART B - ADDITIONAL DISCLOSURES IN COMPLIANCE WITH THE 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 achieved a net profit of RM49.856 million for financial year ended 30 June 2006, translating to an earning per share (EPS) of 3.32 sen. The full year results are not comparable to the corresponding net profit of RM102.318 million and EPS of 10.31 sen in the preceding financial year, which represented only the post-acquisition result from insurance subsidiary following the acquisition on 5 November 2004.

The Group's total assets as at 30 June 2006 declined by 0.3% to RM1.964 billion from RM1.971 billion at the preceding year-end, due mainly to the payment of interim dividend of RM97.5 million on 23 September 2005 as stated in note A7.

Subsidiary's performance

KIMB recorded a net profit of RM50.660 million for financial year ended 30 June 2006, a 67.0% contraction from RM153.687 million recorded for FY2004/2005. The slow down in profitability was mainly attributable to the weaker underwriting profit of RM5.396 million for FY2005/2006 from RM159.467 million for FY2004/2005. However, a stronger investment performance has helped to mitigate the shortfall in overall profit.

Gross premium income fell by 7.2% to RM1.101 billion, from RM1.187 billion for FY2004/2005. However, KIMB's earned premium dropped by just 1.5% to RM1.039 billion from RM1.055 billion due to net release from unearned premium reserve.

The contraction in gross premium income was due in part to streamlining of business portfolio to enhance long-term profitability. The impact of higher petrol prices (in 3rd quarter of FY2005/2006), rising interest rates and the implementation of National Automotive Policy (NAP) in March 2006, resulted in lower motor vehicle sales, both in primary and secondary markets. This inevitably reduced the market value of motor vehicles, which in turn, lowered the sum insured and premium written thereof.

Net commission ratio increased from 9.6% to 10.3% for FY2005/2006, following the payment of profit commission to profitable qualified agents during the financial year.

Net claims ratio weakened from 59.0% to 71.6% for FY2005/2006, mainly due to adverse claims experience and provision made for IBNR claims reserves. The Group's overall claims performance in FY2005/2006 had weakened particularly due to higher number of theft claims, total losses and 3rd party property damages cases.

On claims management, various intensive efforts initiated to control claims expenses has resulted in lower average claims size. However, this was offset by a larger number of claims intimated. This is attributable to increase awareness of faster claims settlement, especially with respect to bodily injury cases.

Management expenses ratio increased to 18.1% for FY2005/2006 from 15.4% mainly due to additional costs incurred on implementation of various e-initiatives like e-Cover Notes, e-policy and e-Payment, together with higher advertisement and promotional expenses.

On a positive note, net investment and other income improved by 19.9%, from RM55.031 million for FY2004/2005 to RM65.964 million for FY2005/2006, despite the challenging investment climate during the year. This resulted from the Group's effort in re-strategizing its investment portfolio since the beginning of FY2005/2006.

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

For the current quarter ended 30 June 2006, the Group recorded a pre-tax loss of RM70.108 million, compared to the profit before tax of RM59.379 million achieved in the preceding quarter. The decline was attributable to weak performance in both underwriting as well as investment activities during the quarter.

Underwriting results dropped from a profit of RM25.787 million for preceding quarter to a loss of RM77.503 million for current quarter, mainly due to the adverse claims experience as explained in the preceding note.

Net investment and other income dropped from RM34.101 million for preceding quarter to RM6.708 million for current quarter on the back of poorer equity market environment during the quarter.

B3. Prospects for the next financial year

Against the competitive environment in the insurance industry, the Group's performance for FY2005/2006 was well below expectations. Moving forward, the Group will continue to be selective in underwriting quality business, giving more focus to the Property & Casualty (P&C) division, improving claims and management expenses control, as well as strengthening its investment function to enhance profitability in the coming financial year. Barring unforeseen circumstances, the Directors expect the Group's results to be satisfactory in financial year ending 30 June 2007.

B4. Variance of KAB Group's actual profit from forecast profit

Not applicable.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
	30-Jun-2006 RM'000	30-Jun-2005 RM'000	30-Jun-2006 RM'000	30-Jun-2005 RM'000
(Loss) / Profit before tax	(70,108)	76,002	70,600	145,567
Current year taxation	(21,397)	15,635	20,744	42,899
Deferred taxation	-	350	-	350
Total taxation	(21,397)	15,985	20,744	43,249
Effective tax rate	30.52	21.03	29.38	29.71

The effective tax rate of the Group for the financial year 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 ended 30 June 2006.

B7. Quoted securities

- (i) The purchase and disposal of quoted securities by the Group (other than those subsidiary companies involved in the insurance business) for the financial year ended 30 June 2006 are as follows: -

			RM'000
(i)	Total purchase consideration of quoted securities	:	65,169
(ii)	Total sales proceeds on disposal of quoted securities	:	19,293
(iii)	Profit / (loss) on disposal of quoted securities	:	(707)

- (ii) 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:

Investment in quoted securities as at 30 June 2006:

			RM'000
(i)	At cost	:	45,169
(ii)	At book value	:	45,050
(iii)	At market value	:	45,050

B8. Status of corporate proposals

- (i) The Company has on 23 August 2006 executed a letter of intent with PT. Asuransi Aegis Indonesia (Aegis), pursuant to which the Company and / or its nominee(s) propose to acquire all the ordinary shares of Rp1,000 each in Aegis permitted under the laws of the Republic of Indonesia to be held by a foreign party from the existing shareholders of Aegis. Further details on Aegis and the proposal will be announced by the Company once the parties have entered into the definitive agreements.
- (ii) 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 RM'000	Actual RM'000
Total proceeds raised	<u>62,031</u>	<u>62,031</u>
Utilisation of Rights Issue proceeds		
	As proposed RM'000	Actual RM'000
Working capital	60,031	59,624
Listing expenses	<u>2,000</u>	<u>2,407</u>
	<u>62,031</u>	<u>62,031</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 25 August 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 25 August 2006, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

B12. Dividend

Subject to the approval from Bank Negara Malaysia to KIMB, the Company will declare a dividend in due course.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
Basic				
Net (loss) profit attributable to ordinary shareholders (RM'000)	(48,711)	60,017	49,856	102,318
Weighted average number of ordinary shares in issue ('000)	1,500,000	1,500,000	1,500,000	992,168
Basic (loss)/ earnings per ordinary share (sen)	<u>(3.25)</u>	<u>4.00</u>	<u>3.32</u>	<u>10.31</u>

SELANGOR DARUL EHSAN

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