KURNIA ASIA BERHAD

Part A – Explanatory Notes Pursuant to $FRS134_{2004}$

A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with FRS 134_{2004} – 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 2006.

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 30 June 2006 and applicable approved accounting standards in Malaysia, except for the adoption of the following new / revised Financial Reporting Standards ("FRS") effective from financial period beginning 1 July 2006:

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

The adoption of the above FRSs does not have significant financial impact on the Group, except for FRS 3 where the principal effect of the changes in accounting policy resulting from the adoption are discussed below:

The adoption of "FRS 3 Business Combinations" has resulted in a change in the accounting policy relating to negative goodwill.

Under FRS 3, negative goodwill, which represents the excess in fair value of the net identifiable assets acquired over the cost of the acquisition, is now recognized immediately to the income statement. Prior to 1 July 2006, negative goodwill was stated at cost in the consolidated balance sheet. In accordance with the transitional provision of FRS 3, the negative goodwill as at 1 July 2006 of RM60,831,000 was derecognized with a corresponding increase in retained profits brought forward.

A2. Preceding year's audit report

The annual financial statements of the Group for financial year ended 30 June 2006 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 the Company during the current financial period under review.

A8. Segmental information

	Current Year-To-Date (30/09/2006)			Preceding Year-To-Date (30/09/2005)		
By business segment	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	284,534	651	285,185	277,744	895	278,639
Result						
Profit /(Loss) before tax	34,146	(301)	33,845	52,881	(16)	52,865
Tax expense			(10,084)			(15,678)
Profit after tax			23,761			37,187

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 30 September 2006 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	8,069

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 recorded a net profit of RM23.761 million for the 3 months ended 30/09/2006, which translated into net earnings per ordinary share (EPS) of 1.58 sen compared to the net profit of RM37.187 million or EPS of 2.48 sen for the corresponding quarter in the preceding year.

The lower net profit recorded was mainly attributed to the lower underwriting surplus recorded during the current period as a net result of the following:

a) Gross premium income grew by 1.7% year-on-year, from RM262.025 million to RM266.434 million, despite the challenging market environment resulting from slower vehicle sales and drop in vehicle market price caused by the National Automotive Policy (NAP), higher fuel prices and rising interest rates.

b) Earned premium dropped by 5.0% year-on-year, from RM264.736 million to RM251.516 million, due to the significantly lower release from unearned premium reserve in this quarter compared to the quarter ended 30/09/2005 which amounted to RM19.344 million, as the level of gross premium income stabilized.

c) Claims expense increased by 1.2% year-on-year, from RM162.008 million to RM163.987 million, and claims ratio had weaken from 61.2% to 65.2%, as a result of the lower earned premium base recorded for the current quarter.

d) Management expense increased by 18.7% year-on-year, from RM42.960 million to RM51.013 million, mainly due to increase in personnel expenses resulting from the increment on basic salary together with additional provision made towards annual bonus for existing staff and expansion of new head counts in non-motor departments.

On a positive note, investment and other income improved by 28.8% year-on-year to RM21.828 million, from RM16.950 million recorded in the previous corresponding period. The increase in investment income was a result of better equity market conditions where the KLCI during the quarter rose by 5.8% as compared to the 4.4% rise in the previous corresponding period. The Group's effort to streamline the investment portfolio also brought about the stronger performance.

The Group's total assets expanded from RM1.976 billion at the end of preceding quarter to RM2.019 billion at the end of the current quarter, while net assets value ("NAV") per ordinary share grew from 32.20 sen to 33.79 sen.

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 RM33.845 million for the quarter under review, registering a turn-around from the RM97.992 million pre-tax loss for the preceding quarter. The improvement in profitability was attributed to both underwriting as well as investment activities.

Overall underwriting performance recovered from the deficit of RM105.395 million for preceding quarter to a surplus of RM12.318 million for current quarter, being the net result of the following:

a) Gross premium income dropped by 4.7% quarter-on-quarter, from RM279.622 million to RM266.434 million, mainly due to the usually slower momentum in production after the financial year-end.

b) Net commission expense increased by 4.1% quarter-on-quarter, and net commission ratio increased from 9.0% to 9.8%, mainly resulting from the higher content of non-motor business that attracts higher commission rates.

c) Claim expense reduced by 43.5% quarter-on-quarter, and net claims ratio improved from the high of 113.4% for preceding quarter to 65.2% for current quarter. The exceptionally higher claims ratio in preceding quarter was mainly due to the additional provision made for Incurred But Not Reported ("IBNR") claims reserves based on the annual actuarial review by an independent actuary.

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

This represented further strengthening of the Group's technical reserves, and did not involve any outflow of funds. With effect from this quarter, the management has decided to make provision for IBNR claims reserves on a quarterly basis to even out the fluctuations between the last quarter and earlier quarters when provisions are made on an annual basis.

Responding to the weaker claims experience registered in FY2005/2006, the Group is determined to strengthen further its overall claims management and underwriting guidelines to improve its overall claims performance. Among the measures are continuing efforts to work closely with various authorities to deter fraudulent claims; strengthening in-house investigation section to intensify theft recovery, and also managing the panel workshops to prevent leakages.

d) Management expense increased by 6.5% quarter-on-quarter, from RM47.918 million to RM51.013 million, mainly due to the provision made during the quarter towards annual staff bonus.

Investment performance had improved by 225.5% quarter-on-quarter, from a net income of RM6.707 million to RM21.828 million. The improvement is in-line with the stronger performance of Bursa Malaysia, which the KLCI at the end of the quarter rose by 5.8% to 967.55 points from 914.69 points as at 30/06/2006.

B3. Prospects for the current financial year

Recognising the market challenges ahead, the Group will continue its efforts on the implementation of various existing management initiatives as well as new initiatives to re-strategize its business model.

The recent acquisition of PT Asuransi Aegis Indonesia, which marked the beginning of the Group's official access to the regional insurance market outside Malaysia, is expected to enhance the value of the Group and contribute to its profitability in the near future.

Barring any unforeseen circumstances, the Directors expect the Group's performance to remain satisfactory for the current financial year.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Taxation

	Individual Quarter		Cumulative Quarter	
RM'000	Current Year 30/09/2006	Preceding Year 30/09/2005	Current Year-to-date 30/09/2006	Preceding Year-to-date 30/09/2005
Profit before tax	33,845	52,865	33,845	52,865
Current year taxation	(10,084)	(15,678)	(10,084)	(15,678)
Deferred taxation	-	-	-	-
Total taxation expense	(10,084)	(15,678)	(10,084)	(15,678)
Effective tax rate (%)	29.79	29.66	29.79	29.66

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 30 September 2006:

			RM'000
(i)	At cost	:	45,169
(ii)	At book value	:	45,169
(iii)	At market value	:	45,270

B8. Status of corporate proposals

a) The Company has on 3 October 2006 incorporated a new subsidiary known as "Kurnia Asia Pte. Ltd." in Singapore. It has a paid-up share capital of SGD2.00 consisting of 2 shares of par value of SGD1.00 each. Kurnia Asia Pte. Ltd. will be an investment holding company for investment overseas.

b) The wholly-owned subsidiary of the Company, Kurnia Asia Pte. Ltd. has on 6 November 2006, entered into conditional share purchase agreements with Aegis Holdings Limited, PT Arthajasa Sekawan, PT Megatama Tatabersama and PT Mitra Millenium Utama to acquire an aggregate of 12,000,000 shares of Rp1,000 each in PT Asuransi Aegis Indonesia ("Aegis"), representing 80% equity interest in Aegis for a total cash consideration of Rp42.711 billion (equivalent to approximately RM17.084 million based on prevailing exchange rate of approximately RM1: Rp2500).

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 1 November 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 1 November 2006, 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 ended 30 September 2006.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/09/2006	30/09/2005	30/09/2006	30/09/2005
Basic				
Net profit attributable to ordinary shareholders (RM'000)	23,761	37,187	23,761	37,187
Weighted average no. of ordinary shares in issue ('000)	1,500,000	1,500,000	1,500,000	1,500,000
Basic earnings per ordinary share (sen)	1.58	2.48	1.58	2.48

SELANGOR DARUL EHSAN
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