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

On 8 December 2006, the Company paid an interim gross dividend of 1.826 sen per ordinary share less 27% income tax, totaling RM20 million in respect of the financial year ending 30 June 2007.

A8. Segmental information

	Current Year-To-Date (31/12/2006)			Preceding Year-To-Date (31/12/2005)		
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	565,364	1,358	566,722	570,843	1,270	572,113
Result						
Profit /(Loss) before tax	87,115	(446)	86,669	82,267	(938)	81,329
Tax expense			(25,870)			(24,416)
Profit after tax			60,799			56,913

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

On 3 October 2006, the Company has incorporated a new wholly-owned subsidiary known as Kurnia Asia Pte. Ltd ("KAPL") in Singapore, with paid-up share capital of SGD2.00, comprising 2 ordinary shares of par value SGD1.00 each. Subsequently in 8 January 2007, the Company further increased the paid up share capital of KAPL to SGD10,459,000, comprising 10,459,000 ordinary shares of par value SGD1.00 each.

On 22 January 2007, the Company has acquired the entire issued and paid-up capital of Kurnia Auto Assist Sdn Bhd, represented by 2 ordinary shares of RM1.00 each.

Save as 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 subsidiary, KIMB.

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 31 December 2006 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	7,450

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 RM60.799 million for the 6 months ended 31/12/2006, which translated into net earnings per ordinary share (EPS) of 4.05 sen, representing a 6.8% growth compared to the net profit of RM56.913 million or EPS of 3.79 sen for the corresponding period in the preceding year.

The improvement in overall profitability was mainly attributed to the strong investments performance, which cushioned the lower underwriting surplus recorded during the current period.

The underwriting performance for the period can be analysed as below:

a) Gross premium income declined by 1.7% year-on-year, from RM538.265 million to RM529.281 million, which were mainly impacted by the slower vehicle sales, and drop in vehicle market values caused by the National Automotive Policy (NAP) introduced in March 2006 and higher fuel prices as well as rising interest rates.

b) Earned premium dropped by 3.9% year-on-year, from RM526.336 million to RM505.609 million, due to the lower release from unearned premium reserve.

c) Claims expense increased by 1.0% year-on-year, from RM328.486 million to RM331.782 million, whilst claims ratio weaken from 62.4% to 65.6% partly due to the lower earned premium base recorded for the current period. The higher claims expense was mainly contributed by the additional provision of IBNR claims reserves booked in on a quarterly basis, a practice that the Group started since the beginning of the current financial year, in order to even out the impact of annual revision of IBNR claims reserves which was only done once a year in the last quarter in previous years.

d) Management expense increased by 17.2% year-on-year, from RM92.095 million to RM107.974 million, mainly due to increase in personnel expenses resulting from normal annual salary increment together with an increase in head count to drive the planned growth of non-motor business under the Property and Casualty division, as well as a general increase in operation cost. Furthermore, the comparative period ended 31/12/2005 also benefited from the reversal of bad debt provision amounting to RM2.8 million which helped to reflect a lower management expense level by the same margin for that period.

B1. Review of the performance of the Company and its principal subsidiary (continued)

Investment and other income improved by 171.3% year-on-year to RM68.249 million, from RM25.155 million recorded in the previous corresponding period. The increase in investment income was a result of better equity market conditions. The KLCI during the period rose by 19.8% as compared to a 1.3% rise in the previous corresponding period. The Group's efforts to actively manage the investment portfolio also brought about the stronger performance.

The Group's total assets expanded from RM2.019 billion at the end of preceding quarter to RM2.059 billion at the end of the current quarter, while net assets value ("NAV") per ordinary share grew from 33.79 sen to 34.92 sen, despite the payment of an interim net dividend of RM20 million during the quarter.

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 RM52.824 million for the quarter under review, representing a growth of 56.1% from the RM33.845 million for the preceding quarter. The improved profitability was mainly attributed to stronger investment performance recorded during the quarter, while underwriting performance was less encouraging than the preceding quarter.

Underwriting surplus reduced to RM6.548 million, representing a 46.8% drop from RM12.318 million recorded in preceding quarter, and the key underwriting indicators are as follow:

a) Gross premium income dropped by 1.3% quarter-on-quarter, from RM266.434 million to RM262.847 million as the motor segment continued to be impacted by slower car sales as well as lower car prices as mentioned in Note B1(a) above.

b) Earned premium income increased by 1.0% quarter-on-quarter, from RM251.516 million to RM254.093 million, due to higher release in unearned premium reserve during the quarter.

c) Claims expense increased by 2.3% quarter-on-quarter from RM163.987 million to RM167.795 million, and net claims ratio weakened slightly from 65.2% for preceding quarter to 66.0% for the current quarter, mainly attributed to the higher bodily injury claims recorded. It came as a consequence of the Group's efforts in managing bodily injury claims cases through expediting the settlement process to save on interest cost and further incidental expenses, and ultimately reducing the overall claims cost. However, additional reserves were topped up for individual claims cases that have been settled while the corresponding release from IBNR reserve can only be effected during the annual IBNR valuation at the end of financial year.

d) Management expense increased by 11.7% from the RM51.013 million recorded in preceding quarter to RM56.961million mainly due to the additional provision made for annual staff bonus.

Investment performance improved by 112.7% quarter-on-quarter, from a net income of RM21.828 million to RM46.421 million. The improvement reflected the results of the Group's efforts in restructuring its investment portfolio that enabled it to take full advantage of the stronger performance of Bursa Malaysia. The KLCI at the end of the quarter rose by 13.3% to 1,096.24 points from 967.55 points as at 30/09/2006.

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 and control costs.

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

RM'000	Individual Quarter Current Year 31/12/2006	Individual Quarter Preceding Year 31/12/2005	Cumulative Quarter Current Year-to-date 31/12/2006	Cumulative Quarter Preceding Year-to-date 31/12/2005
Profit before tax	52,824	28,464	86,669	81,329
Current year taxation	15,786	8,738	25,870	24,416
Deferred taxation	-	-	-	-
Total taxation expense	15,786	8,738	25,870	24,416
Effective tax rate (%)	29.88	30.70	29.85	30.02

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

a. The purchase and disposal of quoted securities by the Group other than in respect of its insurance subsidiary, which are exempted from disclosure of this information are as follow:

			RM'000
i)	Total purchase consideration of quoted securities	:	20,001
ii)	Total sales proceeds on disposal of quoted securities	:	21,218
iii)	Profit on disposal of quoted securities	:	342

b. Investment in quoted securities as at 31 December 2006:

			RM'000
(i)	At cost	:	44,294
(ii)	At book value	:	44,294
(iii)	At market value	:	44,325

B8. Status of corporate proposals

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).

The proposed acquisition is still in the midst of obtaining approval from respective authorities.

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 6 February 2007, 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 6 February 2007, 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 quarter, the Company proposed and declared an interim gross dividend of 1.826 sen per ordinary share less 27% income tax, totaling RM20 million in respect of the financial year ending 30 June 2007. The dividend was paid on 8 December 2006.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Basic				
Net profit attributable to ordinary shareholders (RM'000)	37,038	19,726	60,799	56,913
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)	2.47	1.32	4.05	3.79

SELANGOR DARUL EHSAN
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