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 (31/03/2007)			Preceding Year-To-Date (31/03/2006)		
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	863,178	2,013	865,191	868,004	2,058	870,062
Result						
Profit /(Loss) before tax	133,363	(425)	132,938	142,155	(1,447)	140,708
Tax expense			(39,540)			(42,141)
Profit after tax			93,398			98,567

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 on 8 and 31 January 2007, the Company further increased the paid up share capital of KAPL to SGD10,500,000, comprising 10,500,000 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 ("KAA"), represented by 2 ordinary shares of RM1.00 each.

On 8 March 2007, the Company has acquired an aggregate of 12,000,000 shares of Rp1,000 each in PT Asuransi Aegis Indonesia ("Aegis") (to be renamed as PT Kurnia Insurance Indonesia), 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).

On the same day, KAPL has entered into an option agreement with PT Arthajasa Sekawan ("PT Arthajasa") to purchase the remaining 3,000,000 shares of Rp1,000 each in Aegis, representing the remaining 20% equity interest for an option price of Rp4.289 billion (RM1.715 million based on RM1: Rp2,500).

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 subsidiaries, Kurnia Insurans (M) Berhad ("KIMB") and Aegis.

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 31 March 2007 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	6,813

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

B1. Review of the performance of the Company and its subsidiaries

Following the Group's acquisition of equity interest in Aegis on 8 March 2007 mentioned in Note A11 above, the post-acquisition results of Aegis have been consolidated into the Group's results.

However, the impact of Aegis's results to the Group's current quarter performance is insignificant. Therefore, the Group's year-to-date and current quarter results are still mainly derived from KIMB, the principal subsidiary of the Company.

The Group recorded a net profit of RM93.398 million for the 9 months period ended 31/03/2007, or a net earnings per ordinary share (EPS) of 6.23 sen, compared to the net profit of RM98.567 million or an EPS of 6.57 sen for the previous corresponding period in the preceding year.

The strong investments performance recorded for the period was slightly dampened by the depressed underwriting results thus precipitating in a lower net profit.

The weaker underwriting performance for the period can be attributed to the following:

a) Gross premium income declined by 1.5% year-on-year, from RM821.637 million to RM809.310 million, which were mainly impacted by the slower vehicle sales and drop in vehicle market values caused by implementation of National Automotive Policy (NAP).

b) Consequently, earned premium dropped by 2.8% year-on-year, from RM783.077 million to RM760.887 million, due to the lower release from unearned premium reserve.

c) Claims expense increased by 4.3% year-on-year, from RM481.589 million to RM502.481 million, whilst claims ratio weaken from 61.5% to 66.0% partly due to the lower earned premium base recorded for the current period. The higher claims expense was mainly contributed by:

    i) 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 in previous years was only done once a year in the last quarter; and

    ii) the increased bodily injury claims recorded as a consequence of the Group's efforts in managing bodily injury claims cases through expediting settlement process to save on interest cost and further incidental expenses, and ultimately reducing the overall claims cost. However, additional reserves were topped up (and charged against the current period income statement) 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 20.6% year-on-year, from RM136.919 million to RM165.083 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, there was also no reversal of bad debt provision unlike in the comparative 9 months ended 31/03/2006, which helped to reflect a lower management expense level by a margin of RM4.2 million for that period.

Investment and other income improved by 89.3% year-on-year to RM112.148 million, from RM59.256 million recorded in the previous corresponding period. The increase in investment income was mainly a result of better equity market conditions. The KLCI during the period rose by 36.3% as compared to a 3.6% rise in the previous corresponding period. The Group's efforts to actively manage the investment portfolio also contributed to the stronger performance.

The Group's total assets expanded from RM2.059 billion at the end of preceding quarter to RM2.081 billion at the end of the current quarter, while net assets value ("NAV") per ordinary share grew from 34.92 sen to 37.07 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 RM46.269 million for the quarter under review, compared to the RM52.824 million recorded for the preceding quarter. The lower profitability was mainly due to weaker underwriting performance during the quarter.

Underwriting surplus fell to RM2.349 million, compared to the RM6.548 million recorded in preceding quarter. The key underwriting performance indicators are as follow:

a) Gross premium income improved by 6.5% quarter-on-quarter, from RM262.847 million to RM280.029 million, which mainly resulted from the Group's intensive marketing efforts to increase business volume in term of number of policies to counter the impact of lower premium per policy. Accordingly, earned premium income increased by 0.5% quarter-on-quarter, from RM254.093 million to RM255.278 million.

b) Claims expense increased by 1.7% quarter-on-quarter from RM167.795 million to RM170.699 million, and net claims ratio weakened slightly from 66.0% for preceding quarter to 66.9% for the current quarter. This is mainly attributed to the higher bodily injury claims recorded as a consequence of the Group's efforts in managing bodily injury claims cases through expediting settlement process to save on interest cost and further incidental expenses, and ultimately reducing the overall claims cost. However, additional reserves were topped up (and charged against the current quarter income statement) 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.

c) Management expense increased by 0.3% from the RM56.961 million recorded in preceding quarter to RM57.109 million mainly due to the higher advertisement and promotional expenses incurred to support more intensive marketing activities, which had brought about increase in business volume in term of number of policies.

Investment performance remained strong for the third quarter, and recorded a net income of RM43.899 million compared to RM46.421 million for the preceding quarter, achieved on the sustaining good equity market condition and active management of the equity portfolio by the Group.

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 acquisition of Aegis, 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 31/03/2007	Individual Quarter Preceding Year 31/03/2006	Cumulative Quarter Current Year-to-date 31/03/2007	Cumulative Quarter Preceding Year-to-date 31/03/2006
Profit before tax	46,269	59,379	132,938	140,708
Current year taxation	13,670	17,725	39,540	42,141
Deferred taxation	-	-	-	-
Total taxation expense	13,670	17,725	39,540	42,141
Effective tax rate (%)	29.54	29.85	29.74	29.95

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 subsidiaries, which are exempted from disclosure of this information are as follow:

			RM'000
i)	Total purchase consideration of quoted securities	:	20,169
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 March 2007:

			RM'000
(i)	At cost	:	44,462
(ii)	At book value	:	44,462
(iii)	At market value	:	44,490

B8. Status of corporate proposals

On 6 November 2006, KAPL, a wholly owned subsidiary of the Company in Singapore, entered into a 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 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).

On 8 March 2007, the Company has acquired the 80% equity interest in Aegis above through direct investment, instead of going through KAPL, following the requirement of Ministry of Finance in Indonesia.

Following the completion of the above acquisition, there was no corporate proposal announced but not completed as at 4 May 2007, being the latest practicable date which is not earlier than 7 days from the date of the issue of this quarterly report.

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 4 May 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 business of its insurance subsidiaries) as at 4 May 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 last 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 as mentioned in A7 above.

The Board does not recommend any dividend payment for the current quarter under review.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/03/2007	31/03/2006	31/03/2007	31/03/2006
Basic				
Net profit attributable to ordinary shareholders (RM'000)	32,599	41,654	93,398	98,567
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)	2.17	2.78	6.23	6.57

SELANGOR DARUL EHSAN
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