KURNIA ASIA BERHAD

Part A – Explanatory Notes Pursuant to FRS134

A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with FRS 134 – 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 ended 30 June 2007.

A8. Segmental information

	Current Year-To-Date (30/06/2007)			Preceding Year-To-Date (30/06/2006)		
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	1,181,213	2,633	1,183,846	1,162,887	3,448	1,166,335
Result						
Profit /(Loss) before tax	13,332	(1,148)	12,184	43,467	(751)	42,716
Tax expense			(11,039)			(12,897)
Profit after tax			1,145			29,819

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 Kurnia Insurance Indonesia ("KII") (formerly known as PT Asuransi Aegis Indonesia ("Aegis")), representing 80% equity interest in KII 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 KII, 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 KII.

A13. Capital commitments

Capital commitments not provided for in the interim financial report as at 30 June 2007 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	9,255

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

However, the impact of KII's results to the Group's current period 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 RM1.145 million for the financial year ended 30/06/2007, translating into a net earnings per ordinary share (EPS) of 0.08 sen, a decrease of 96.2% from the net profit of RM29.819 million or an EPS of 1.99 sen recorded for the preceding year. The drop was mainly attributable to the depressed underwriting results, despite a strong investments performance achieved during the year.

The Group's overall adverse underwriting experience for the year are analyzed as follow:

a) Gross premium income grew slightly by 0.6% to RM1.107 billion from RM1.101 billion in the preceding year. The slow growth was mainly impacted by the slower vehicle sales and drop in vehicle market values caused by implementation of National Automotive Policy (NAP).

b) Earned premium dropped by 2.1% or by RM22.035 million year-on-year to RM1.017 billion from RM1.039 billion mainly due to the additional charge to unearned premium reserve.

c) Claims expense increased by 13.6% or by RM105.068 million year-on-year to RM877.058 million from RM771.990 million, whilst claims ratio weaken from 74.3% to 86.2% partly due to the lower earned premium base recorded for the current year.

   The higher claims expense was mainly due to the Group's adoption of higher provisioning of total outstanding claims reserves compared to preceding year in preparation for the implementation of Risk-Based Capital Framework ("RBC Framework") for insurers, which will take effect from January 2009.

   Based on the RBC Framework announced by Bank Negara Malaysia, general insurers are required to maintain total outstanding claims including IBNR claims reserve at the 75% level of confidence, upon the official implementation in year 2009. Aiming to smoothen the corresponding impact on its profitability, the Group decided to strengthen its outstanding claims reserves over 3 financial years. As a first step, the Group had raised its outstanding claims reserves to the 65% level of confidence during the current financial year, from the normal 50% level of confidence that have been adopted historically.

d) Management expense increased by 14.4% or by RM26.626 million year-on-year to RM211.463 million from RM184.837 million, mainly due to the 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, professional consultancy fee of RM6.6 million incurred on the corporate transformation program being undertaken, as well as a general increase in operation cost. Furthermore, preceding year ended 30/06/2006 also benefited from a reversal of bad debt provision amounting to RM4.2 million, compared to much lower reversal of RM1.4 million in current financial year.

Investment and other income improved remarkably by 175.9% year-on-year to RM182.000 million, from RM65.963 million recorded in preceding year. The increase in investment income was mainly a result of better equity market conditions, as the KLCI during the financial year rose by 48.1% as compared to a 3.0% rise in the preceding year. The Group's efforts to actively manage the investment portfolio also contributed to the stronger performance.

The Group's total assets expanded from RM1.976 billion at the end of preceding year to RM2.222 billion at the end of the current year, while net assets value ("NAV") per ordinary share dropped slightly from 32.20 sen to 30.91 sen.

The Group's technical reserves have also strengthened considerably from RM1.421 billion as at 30 June 2006 to RM1.668 billion at the current financial year-end.

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 pre-tax loss of RM120.755 million for the current quarter under review, compared to the profit before tax of RM46.269 million recorded for the preceding quarter. The significant deterioration was mainly due to the poor underwriting performance recorded during the quarter.

Compared to the underwriting surplus of RM2.349 million recorded in the preceding quarter, the Group suffered an underwriting deficit of RM189.883 million for the current quarter under review. The key underwriting performance indicators are as follow:

a) Gross premium income improved by 6.5% quarter-on-quarter to RM298.288 million from RM280.029 million, mainly due to the Group's intensive marketing efforts to increase business volume in terms of number of policies to counter the impact of lower premium per policy. Accordingly, earned premium income increased by 0.4% quarter-on-quarter to RM256.324 million from RM255.278 million.

b) Claims expense increased by 119.4% quarter-on-quarter to RM374.577 million from RM170.699 million, while net claims ratio weakened from 66.9% for preceding quarter to 146.1% for the current quarter. The increase was mainly attributed to the impact of additional provision on outstanding claims reserve booked in during the final quarter of the financial year as mentioned in Note B1(c). This is notwithstanding the Group's anticipation to have a net release from IBNR reserve in the final quarter following its efforts in managing bodily injury claims by expediting settlement during the past few quarters, as the Directors believe that it is imperative for the Group to prepare for the implementation of RBC Framework in advance.

c) Management expense decreased by 18.8% to RM46.380 million, from the RM57.109 million recorded in preceding quarter. The decrease was mainly due to the reversal of overprovision of personnel expenses recorded in preceding quarter.

Investment performance remained strong for the fourth quarter, and recorded a net income of RM69.852 million compared to RM43.899 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 next 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.

In response to the challenging market environment, the Group has implemented a new organization structure to enhance and streamline its operation by functions. The new structure is designed to support the corporate transformation program the Group is undertaking currently. The transformation program is having an initial focus on 2 core functions of the business: claims management and agency management. The program which is well supported by a series of projects, which aim at reducing claims leakages, enhancing claims processes and service, improving the production and profitability of agents, etc. is expected to generate substantial savings and boost the Group's bottom line over the near-to-medium term.

The Group also plans to deploy a 2-pronged push-and-pull strategy by stepping up the development of products according to customers' demand and expectation, and at the same time enhancing customer relationship management to create a sought-after brand in insurance.

The Group is also optimistic of better prospects in the coming financial year with the improving motor vehicle sales and premium loading on third party and high-risk policies.

Barring unforeseen circumstances, the Directors expect the Group's results to be satisfactory in financial year ending 30 June 2008.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Taxation

RM'000	Individual Quarter Current Year 30/06/2007	 Preceding Year 30/06/2006	Cumulative Quarter Current Year-to-date 30/06/2007	 Preceding Year-to-date 30/06/2006
(Loss) / Profit before tax	(120,755)	(97,992)	12,184	42,716
Current year taxation	(25,534)	(33,088)	14,007	9,053
Deferred taxation	(2,968)	3,844	(2,968)	3,844
Total taxation expense	(28,502)	(29,244)	11,039	12,897
Effective tax rate (%)	23.60	29.84	90.60	30.19

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	:	20,379
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 30 June 2007:

			RM'000
(i)	At cost	:	44,672
(ii)	At book value	:	44,644
(iii)	At market value	:	44,644

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 KII, representing 80% equity interest in KII 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 KII 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 25 August 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 25 August 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 25 August 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 second quarter of the financial year, 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 ended 30 June 2007. The dividend was paid on 8 December 2006 as mentioned in A7 above.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/06/2007	30/06/2006	30/06/2007	30/06/2006
Basic				
Net profit attributable to ordinary shareholders (RM'000)	(92,253)	(68,748)	1,145	29,819
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)	(6.15)	(4.58)	0.08	1.99

SELANGOR DARUL EHSAN
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