

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 2007.

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 2007 and applicable approved accounting standards in Malaysia.

A2. Preceding year’s audit report

The annual financial statements of the Group for financial year ended 30 June 2007 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

During the current quarter, the company activated its share buy back program and purchased 11.577 million shares from the market for a total sum of RM 11.971 million. The share buy back transactions were financed by internally generated funds. These shares are being held as Treasury shares.

Apart from the above, 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

By business segment	Current Year-To-Date (30/09/2007)			Preceding Year-To-Date (30/09/2006)		
	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	290,900	531	291,431	284,534	651	285,185
Result						
Profit /(Loss) before tax	21,383	(465)	20,918	34,146	(301)	33,845
Tax expense			(6,567)			(10,084)
Profit after tax			14,351			23,761

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

A13. Capital commitments

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

Property, plant and equipments	RM'000
- approved and contracted for	4,566
	<u><u>4,566</u></u>

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

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

The group recorded a net profit of RM14.351 million for the 3 month ended 30/09/2007 which translated into an earnings per ordinary share (EPS) of 0.96 sen compared to the net profit of RM23.761 million or an EPS of 1.58 sen for the previous corresponding quarter in the preceding year.

The lower net profit recorded was mainly due to the lower underwriting surplus recorded during the current period. The underwriting performance for the period can be analysed as below:

- a) Gross premium income grew by less than 1% from RM266.434 million to RM268.524 million under the continuously challenging market environment resulting from the decrease in vehicle prices following the implementation of the National Automotive Policy (NAP) in March 2006.
- b) Earned premium increased by 1.3% year-on-year from RM251.516 million to RM254.827 million mainly due to the net release from unearned premium reserve, offset by slightly higher reinsurance premium on non-motor classes.
- c) Claims expense increased by 17.2% year-on-year, from RM163.987 million to RM192.175 million whilst claims ratio weaken from 65.2% to 75.4% mainly due to efforts to further strengthen claims reserves in line with the final run up to full compliance with higher claims reserving requirements under the Risk Based Capital Framework (RBC), which will take effect from 1st January 2009.

Investment and other income improved by 57.6% year-on-year to RM34.404 million, from RM21.828 million recorded in the previous corresponding quarter. The increase in investment income was a result of the strong showing on the Bursa Malaysia. For the quarter ended, the KLCI benchmark on Bursa Malaysia declined by 1.3% q-o-q but was 38.1% higher on y-o-y basis to close at 1336.30 points. The Group's active management on the equity portfolio also contributed to the stronger performance.

The Group's total assets expanded from RM2.223 billion at the end of the preceding year quarter to RM2.238 billion at the end of the current quarter, while net assets value ("NAV") per ordinary share grew from 30.24 sen to 30.46 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 RM20.918 million for the quarter under review in comparison to the RM119.557 million pre-tax loss for the preceding quarter. The improvement in profitability was attributed to both underwriting as well as investment activities.

The Group's underwriting performance for the current quarter recorded a surplus of RM37.963 million compared to a deficit of RM141.944 million for the preceding quarter, as a net result of the following:

- a) Gross premium income dropped by 10.0% quarter-on-quarter, i.e. from RM298.354 million to RM268.524 million, mainly due to the seasonally slower momentum in production just after the financial year-end.
- b) Claim expense reduced by 48.7% quarter-on-quarter, and net claims ratio improved from a high of 145.2% for preceding quarter to 75.4% 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.

This reflected further strengthening of the Group's technical reserves as a step forward to prepare for the implementation of RBC, which will take effect from 1st January 2009.

Management expenses increased by 9.1% from RM46.741 million recorded in the preceding quarter to RM50.984 million mainly due to the increase in printing and stationery, office maintenance and eCovernote expenses. The increase in these expenses is attributed to the higher level of business volume in terms of number of policies issued during the quarter ended 30th September 2007.

B3. Prospects for the next financial year

Recognising the changing market and operating environment, the Group will continue its efforts to implement various management initiatives to re-strategise its business model for further growth and control costs.

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

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Taxation

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 30/09/2007	Preceding Year 30/09/2006	Current Year-to-date 30/09/2007	Preceding Year-to-date 30/09/2006
Profit before tax	20,918	33,845	20,918	33,845
Current year taxation	(6,567)	(10,084)	(6,567)	(10,084)
Deferred taxation	-	-	-	-
Total taxation expense	(6,567)	(10,084)	(6,567)	(10,084)
Effective tax rate (%)	31.39	29.79	31.39	29.79

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:

i) Total purchase consideration of quoted securities : **RM'000**
155

b. Investment in quoted securities as at 30 September 2007:

(i) At cost : **RM'000**
44,827
(ii) At book value : 44,799
(iii) At market value : 44,799

B8. Status of corporate proposals

There were no new corporate proposals announced as at 14 November 2007 (the latest practicable date which shall not be earlier than 7 days from the date of 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 14 November 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 14 November 2007, 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 2007.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/09/2007	30/09/2006	30/09/2007	30/09/2006
Basic				
Net profit attributable to ordinary shareholders (RM'000)	14,351	23,761	14,351	23,761
Weighted average no. of ordinary shares in issue ('000)	1,493,205	1,500,000	1,493,205	1,500,000
Basic earnings per ordinary share (sen)	0.96	1.58	0.96	1.58

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