

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 preceding quarter, the Company activated its share buy back program and purchased 11.577 million shares from the market for a total sum of RM11.971 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 (31/12/2007)			Preceding Year-To-Date (31/12/2006)		
	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	592,089	974	593,063	565,364	1,358	566,722
Result						
Profit before tax	40,842	(1,520)	39,322	87,115	(446)	86,669
Tax expense			(12,602)			(25,870)
Profit after tax			26,720			60,799

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 PT Kurnia Insurance Indonesia ("KII").

A13. Capital commitments

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

	RM'000
Property, plant and equipments	
- approved and contracted for	4,367
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Part B – Additional Disclosures In Compliance With Bursa Securities Listing Requirements

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

Gross premium income grew by 4.0% from RM529.281 million to RM550.551 million, partly contributed by the recently acquired subsidiary, KII and partly from higher business volume as the total number of policies written by KIMB improved by 16.5% year-on-year. The recovery was attributed to the intensive marketing efforts by KIMB amidst extremely competitive market environment as motor sales continued to be sluggish as a result of low trade-in and resale value for used cars and more stringent criteria set for new hire purchase loans.

Earned premium increased by 0.6% year-on-year from RM505.609 million to RM508.721 million mainly due to lower net release from unearned premium reserve as gross and net premium increased.

Management expenses improved by 3.2% year-on-year, from RM107.974 million to RM104.522 million, due mainly to lower payout of staff bonus for the period under review in comparison to a higher provision made in the corresponding period for preceding year. The Directors viewed this move as appropriate and necessary in order to foster a performance-based environment within the Group to improve productivity and profitability.

The Group continued to strengthen its claims reserves in preparation to comply with the more stringent claims reserving requirements under the Risk Based Capital Framework (RBC), which will take effect from 01/01/2009. Consequently, claims expense increased by 16.4% year-on-year from RM331.782 million to RM386.363 million whilst claims ratio increased from 65.6% to 75.9%. KIMB management targets to achieve full compliance with the higher claims reserving requirements under the RBC Framework by this financial year ending 30 June 2008, after which the claims expense ratio is expected to return to normal historical levels and gradually improve further to reflect the results of various claims control measures that have been put in place over the recent months as part of the Group's wider transformation of operations and performance initiatives.

In view of this, the Group registered an underwriting deficit of RM30.020 million for the current period under review, compared to an underwriting surplus of RM18.866 million for the corresponding period in the preceding year.

On a positive note, investment and other income improved by 3.8% year-on-year to RM70.862 million, from RM68.249 million recorded in the preceding year. The increase in investment income was a result of the strong showing on the Bursa Malaysia. The Group's active management on the equity portfolio has continued to contribute to the stronger performance.

As a result, the Group still recorded a net profit of RM26.720 million for the 6 month ended 31/12/2007 which translated into an earnings per ordinary share (EPS) of 1.79 sen compared to the net profit of RM60.799 million or an EPS of 4.05 sen for the corresponding period in the preceding year.

In terms of segmental analysis, the Group's year-to-date results are mainly derived from KIMB, as KII's operation is still small. KII's contribution to the Group's gross premium and net profits for the period amounted RM18.955 million and RM0.345 million respectively.

The Group's total assets expanded from RM2.223 billion at the end of the preceding year to RM2.272 billion at the end of the current quarter, while net assets value ("NAV") per ordinary share grew from 31.00 sen to 32.21 sen.

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

Gross premium income improved by 5.0% quarter-on-quarter, from RM268.524 million to RM282.027 million as the momentum started to recover from the usually slower production level after financial year-end.

However, claims expense increased by 1.0% quarter-on-quarter, and net claims ratio increased slightly from 75.4% for preceding quarter to 76.5% for the current quarter. This was mainly due to the continued strengthening of claims reserving as mentioned in B1 above.

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

Management expenses increased by 3.2% quarter-on-quarter, from RM51.441 million to RM53.081 million mainly attributable to the higher promotional expenses incurred to generate higher business volume in terms of number of policies.

Consequently, the Group continued to suffer an underwriting loss of RM16.542 million during the quarter compared to a deficit of RM13.478 million for the preceding quarter.

Likewise, profit before tax also dropped from RM20.918 million for the preceding quarter to RM18.404 million for the quarter under review, despite a better investment performance which contributed a 3.3% improvement quarter-on-quarter in investment and other income, from RM34.861 million to RM36.001 million due to the continued good performance of the equity market.

As mentioned in note B1, the results for the quarter under review was also mainly contributed by KIMB as KII's operation was still small. KII's contribution to the Group's gross premium and net profit for the quarter amounted to RM8.968 million and RM0.245 million respectively.

B3. Prospects for the current financial year

Recognising the challenges ahead, the Directors had since the beginning of the current financial year launched an improvement and change management program called Transformation of Operation and Performance ("TOP") that sets a new corporate direction for the Group. The program encompassed a series of management initiatives that aimed to re-strategise the Group's business model to focus on sustaining growth and profitability.

However, in view of the Group's obligation to build up a stronger claims reserve in preparation for the implementation of RBC by 01/01/2009 and the additional cost incurred on the TOP program before it brings about the anticipated positive results, the Directors do not expect a significant improvement in terms of profitability for the current financial year.

Nevertheless, the Directors are satisfied with the progress made to-date under the TOP program. 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 31/12/2007	Preceding Year 31/12/2006	Current Year-to-date 31/12/2007	Preceding Year-to-date 31/12/2006
Profit before tax	18,404	52,824	39,322	86,669
Current year taxation	6,035	15,786	12,602	25,870
Deferred taxation	-	-	-	-
Total taxation expense	6,035	15,786	12,602	25,870
Effective tax rate (%)	32.79	29.88	32.05	29.85

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:

		Individual Quarter RM'000	Cumulative Quarter RM'000	
i)	Total purchase consideration of quoted securities	:	126	281

- b. Investment in quoted securities as at 31 December 2007:

		RM'000	
(i)	At cost	:	44,953
(ii)	At book value	:	44,953
(iii)	At market value	:	44,960

B8. Status of corporate proposals

There were no new corporate proposals announced as at 18 February 2008 (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 18 February 2008, 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 18 February 2008, 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 and period ended 31 December 2007.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2007	31/12/2006	31/12/2007	31/12/2006
Basic				
Net profit attributable to ordinary shareholders (RM'000)	12,369	37,038	26,720	60,799
Weighted average no. of ordinary shares in issue ('000)	1,488,422	1,500,000	1,491,440	1,500,000
Basic earnings per ordinary share (sen)	0.83	2.47	1.79	4.05