

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 30th 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 30th 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 30th 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 first quarter of the financial year, 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 (31/03/2008)			Preceding Year-To-Date (31/03/2007)		
	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	893,669	1,385	895,054	863,178	2,013	865,191
Result						
Profit before tax	8,745	(3,223)	5,522	133,363	(425)	132,938
Tax expense			(4,218)			(39,540)
Profit after tax			1,304			93,398

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 31st March 2008 is as follow:

	RM'000
Property, plant and equipments	
- approved and contracted for	5,223
	<u>5,223</u>

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 2.8% from RM809.310 million to RM832.006 million, partly contributed by the acquired subsidiary, KII and partly from higher business volume as the total number of policies written by KIMB improved by 11.4% year-on-year. The recovery was attributed to the intensive marketing efforts by KIMB amidst extremely competitive market environment.

Earned premium grew by 0.7% year-on-year from RM760.887 million to RM765.975 million mainly due to higher net release from unearned premium reserve.

Management expenses increased by 1.1% year-on-year to RM166.970 million, due mainly to the additional professional fee incurred on the improvement and change management program “TOP” as elaborated on note B3, which has offset expense savings derived from the other cost control measures including the lower payout of staff bonus for the period under review in comparison to the preceding year.

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 1st January 2009. Consequently, claims expense increased by 20.2% year-on-year from RM502.481 million to RM604.084 million whilst claims ratio increased from 66.0% to 78.9%. Upon achieving full compliance with the higher claims reserving requirements under the RBC Framework, 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 RM78.044 million for the current period under review, compared to an underwriting surplus of RM21.215 million for the corresponding period in the preceding year.

The Group’s investment and other income fell by 22.6% year-on-year to RM86.789 million. The drop in investment income was mainly attributable to the poor showing of Bursa Malaysia as it corrected sharply from the high set in January 2008 due to external factors as well as shift in domestic political scenario.

Consequently, the Group’s year-to-date net profit has dipped to RM1.304 million for the 9 month ended 31st March 2008 which translated into an earnings per ordinary share (EPS) of 0.09 sen, compared to the net profit of RM93.398 million or an EPS of 6.23 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 RM28.229 million and RM0.276 million respectively.

The Group’s total assets expanded from RM2.223 billion at the end of the preceding year to RM2.238 billion at the end of the current quarter, while net assets value (“NAV”) per ordinary share reduced slightly from 31.00 sen to 30.50 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 reduced marginally by 0.2% quarter-on-quarter, from RM282.027 million to RM281.455 million.

However, claims expense increased by 12.1% quarter-on-quarter, and net claims ratio jumped from 76.5% for preceding quarter to 84.6% 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 17.6% quarter-on-quarter, from RM53.081 million to RM62.448 million, was mainly attributable to the payout of staff bonus during the quarter under review.

Consequently, the Group recorded an underwriting loss of RM48.024 million during the quarter compared to a deficit of RM16.542 million for the preceding quarter.

Likewise, pre-tax profitability also deteriorated from the profit of RM18.404 million for the preceding quarter to a loss of RM33.800 million for the quarter under review, following the lower investment and other income, which dropped from RM36.001 million to RM15.927 million quarter-on-quarter, due to provisions made in respect of unrealized losses on equity investments caused by the factors mentioned in note B1.

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 RM9.274 million and RM0.114 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 encompasses a series of management initiatives that aims to re-strategise the Group's business model to focus on sustaining growth and profitability. The Directors are satisfied with the progress made to-date under the TOP program.

However, the Directors expect the Group's short-term results to be impacted by the Group's obligation to build up a stronger claims reserve in preparation for the implementation of RBC by 1st January 2009 and by the additional cost incurred on the TOP program before it brings about the anticipated positive results.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Taxation

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 31/03/2008	Preceding Year 31/03/2007	Current Year-to-date 31/03/2008	Preceding Year-to-date 31/03/2007
(Loss) / Profit before tax	(33,800)	46,269	5,522	132,938
Current year taxation	(8,384)	13,670	4,218	39,540
Deferred taxation	-	-	-	-
Total taxation expense	(8,384)	13,670	4,218	39,540
Effective tax rate (%)	24.80	29.54	76.38	29.74

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	121	402

- b. Investment in quoted securities as at 31 March 2008:

		RM'000
(i)	At cost	45,074
(ii)	At book value	45,074
(iii)	At market value	45,119

B8. Status of corporate proposals

On 11th April 2008, Kurnia Asia Pte Ltd ("KAPL"), the wholly-owned subsidiary of the Company had entered into an Equity Joint Venture Agreement with Canadia Investment Holding Plc ("CIHP") to establish a joint venture company under the name of Cana Kurnia Insurance Plc ("Cana Kurnia") in Cambodia to undertake general and life insurance business in Cambodia. The equity shareholdings of Cana Kurnia will be held by KAPL and CIHP in the proportion of 49% and 51% respectively.

Save as disclosed above, there were no new corporate proposals announced as at 26th May 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 26th May 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 26th May 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 31st March 2008.

B13. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/03/2008	31/03/2007	31/03/2008	31/03/2007
Basic				
Net (loss) profit attributable to ordinary shareholders (RM'000)	(25,416)	32,599	1,304	93,398
Weighted average no. of ordinary shares in issue ('000)	1,488,422	1,500,000	1,490,438	1,500,000
Basic (loss) / earnings per ordinary share (sen)	(1.71)	2.17	0.09	6.23

SELANGOR DARUL EHSAN
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