

KSK GROUP BERHAD (Formerly known as KURNIA ASIA BERHAD)

Part A – Explanatory Notes Pursuant to MFRS134

A1. Basis of preparation

The interim financial reports are unaudited and have been prepared in accordance with MFRS 134, *Interim Financial Reporting* in Malaysia and with IAS 34, *Interim Financial Reporting*; and Paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Securities”). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31st December 2011.

A1.1. Change in accounting policies and adoption of new policy

Since the previous audited financial statements as at 31st December 2011, the Group has adopted the Malaysian Financial Reporting Standards (“MFRS”) framework issued by the Malaysian Standards Board (“MASB”) with effect from 1st January 2012. An explanation of how the transition to MFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note B12.

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 financial statements for the year ended 31st December 2011, except for:

a) Property, plant and equipment

The Group had adopted the revaluation model to measure its property, plant and equipment beginning financial year ended 31st December 2011.

Upon transition to MFRSs, the Group elected to apply the optional exemption to use fair value as deemed cost under MFRSs. Consequently, the revaluation reserve of RM30.746 million as at 31st December 2011 was reclassified to retained earnings.

The impact arising from the change is summarised as follows:

Property, plant and equipment	Note	01-Jan-2011 RM'000	30-Jun-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of profit or loss and other comprehensive income				
Depreciation on property, plant and equipment		-	(378)	(3,902)
Impairment loss		-	-	-
		-	(378)	(3,902)
Consolidated statement of financial position				
Fair value as deemed cost of property, plant and equipment	B12.a	30,901	(1,841)	(1,822)
Reclassification of revaluation reserve to retained earnings	B12.a	-	30,746	30,746
Related tax effect	B12.d(i)	(1,508)	163	110
Adjustment to retained earnings	B12.d(ii)	29,393	29,068	29,034

b) Investment property

For the financial year ended 31st December 2011, the Group measured investment property at fair value. Upon transition to MFRSs, the Group elected to measure investment property at cost.

The impact arising from the change is summarised as follows:

Investment property	Note	01-Jan-2011 RM'000	30-Jun-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of financial position				
Fair value as deemed cost of investment property	B12.a	213	-	-
Related tax effect		(53)	(53)	-
Adjustment to retained earnings	B12.d(ii)	160	(53)	-

c) Translation reserve

Upon transition to MFRSs, the Group elected to apply the optional exemption to deem the cumulative translation differences for all foreign operations to be zero.

The impact arising from the change is summarised as follows:

Translation reserve	Note	01-Jan-2011 RM'000	30-Jun-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of financial position				
Reclassification of translation reserve to retained earnings	B12.a	(2,504)	(2,504)	(2,504)
Adjustment to retained earnings	B12.d(ii)	(2,504)	(2,504)	(2,504)

d) Investment in associate company

Upon transition to MFRSs, the Group elected to measure its investment in associate company at fair value.

The impact arising from the change is summarised as follows:

Investment in associate company	Note	01-Jan-2011 RM'000	30-Jun-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of financial position				
Fair value as deemed cost of investment in associate company	B12.a	(10,512)	(10,512)	(10,512)
Adjustment to retained earnings	B12.d(ii)	(10,512)	(10,512)	(10,512)

A1.2. Discontinuing operation

On 12th April 2012, KSK Group Berhad (formerly known as Kurnia Asia Berhad) ("Company") entered into a conditional sale and purchase agreement with AmG Insurance Berhad ("AmG") to dispose its 100% equity interest in Kurnia Insurans (Malaysia) Berhad ("KIMB") to AmG ("Proposed KIMB Disposal").

Following thereon, KIMB has been identified as discontinuing operation to the Group, of which its financial results are presented separately in the consolidated income statements, in accordance with *MFRS5: Non-current Assets Held for Sale and Discontinued Operations*.

The financial results of the discontinuing operation for the period are as follows:

	Individual Quarter		Cumulative Quarter	
	Current Year 30-Jun-2012 RM'000	Preceding Year 30-Jun-2011 RM'000	Current Year 30-Jun-2012 RM'000	Preceding Year 30-Jun-2011 RM'000
Operating revenue	301,113	281,425	591,444	561,883
Gross written premiums	282,521	255,081	555,518	518,532
Change in unearned premiums provision	(918)	4,358	(6,435)	(70)
Gross earned premiums	281,603	259,439	549,083	518,462
Premium ceded to reinsurers	(86,402)	(72,609)	(164,223)	(122,938)
Net earned premiums	195,201	186,830	384,860	395,524
Other income	49,888	44,679	93,604	83,829
Net claims incurred	(120,820)	(132,934)	(239,486)	(272,605)
Other expenses	(80,439)	(71,463)	(151,998)	(150,569)
Profit before taxation	43,830	27,112	86,980	56,179
Tax expense	(10,286)	(4,907)	(19,576)	(11,050)
Net profit for the period	33,544	22,205	67,404	45,129

A2. Preceding year's audit report

The annual financial statements of the Group for financial year ended 31st December 2011 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, other than as discussed in A1 and B12.

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 has disposed of 11,577,400 treasury shares at average price of RM0.61 each, for a total consideration of RM7,045,124 in the open market, resulting in a loss of RM4,926,446 which has been debited to share premium account.

Save as disclosed 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

The Group has one reportable segment, namely the general insurance business in Malaysia from KIMB. Following the Proposed KIMB Disposal, this segment has been classified and presented as "Discontinuing operation". "Continuing operation" represents non-reportable segments comprising the Group's general insurance business in Indonesia and investment holdings.

RM'000	Current Year-to-date (30/06/2012)			Preceding Year-to-date (30/6/2011) Restated		
	Discontinuing operation	Continuing operation	Total	Discontinuing operation	Continuing operation	Total
By operating segments						
Operating revenue	591,444	21,797	613,241	561,883	12,099	573,982
Segment results	67,404	(18,752)	48,652	45,129	(15,691)	29,438
Share of loss from associate company			(691)			(513)
Net profit for the period			47,961			28,925
Segment assets	2,672,619	129,458	2,802,077	2,551,918	45,449	2,597,367
Unallocated assets			10,039			34,795
Total assets			2,812,116			2,632,162
Segment liabilities	1,839,673	522,012	2,361,685	1,833,279	412,011	2,245,290
Unallocated liabilities			7,385			8,199
Total liabilities			2,369,070			2,253,489

Discontinuing operation contributed RM67.404 million (2011: RM45.129 million) to the Group's results for the period under review. The improvement was mainly due to its improved underwriting and investment results.

Included in the net results of "Continuing operation" is finance cost amounting to RM11.413 million (2011: RM10.251 million).

A9. Material events not reflected in the financial statements

Save for the Proposed KIMB Disposal, there were no material subsequent events from the end of the current financial period to the date of this interim report.

A10. Changes in composition of the Group

There were no changes in the composition of the Group during the financial period under review.

A11. 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 period.

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, KIMB and PT Kurnia Insurance Indonesia ("KII") and its associate company, Kurnia Insurance (Thailand) Co., Ltd. ("KIT").

A12. Capital commitments

Capital commitments not provided for in the interim financial report as at 30th June 2012 is as follow:

	RM'000
<u>Property and equipment</u>	
- approved and contracted for	<u>458</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 RM47.961 million for the period under review, a significant improvement from the RM28.925 million recorded last year.

Based on this, the discontinuing operation, KIMB contributed RM67.404 million (2011: RM45.129 million) to the net profit; whilst continuing operation recorded a net loss of RM19.443 million (2011: RM16.204 million) mainly due to the financing cost incurred at the Group level.

As at 30th June 2012, the net asset value of the Group improved to RM443.046 million (31st December 2011, restated: RM389.168 million). The increase was mainly due to the net profits of RM47.961 million recorded during the period.

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

The Group recorded a pre-tax profit of RM34.432 million during the quarter, at par to the RM34.783 million recorded in the preceding quarter.

B3. Prospects for the remaining of the financial year

The Company is currently in the midst of completing the Proposed KIMB Disposal. Barring unforeseen circumstances, the Proposed KIMB Disposal will be completed in the second half of 2012. Upon completion of the Proposed KIMB Disposal, the Company will focus on expanding its existing general insurance businesses in Indonesia and Thailand, whilst looking for new investment opportunities.

B4. Variance of actual profit from forecast profit

Not applicable.

B5. Tax expense

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 30/06/2012	Preceding Year-to-date 30/06/2011	Current Year-to-date 30/06/2012	Preceding Year-to-date 30/06/2011
Profit before tax	34,432	20,216	69,215	41,342
Current year tax expense	11,074	5,591	21,254	12,417
Deferred tax expense	-	-	-	-
Total tax expense	11,074	5,591	21,254	12,417
Effective tax rate (%)	32.2	27.7	30.7	30.0

The effective tax rate of the Group for the year is higher the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.

B6. Status of corporate proposals

On 12th April 2012, the Company announced the following proposals:

- i) Proposed disposal by the Company of its 100% equity interest in KIMB to AmG for a total cash consideration of RM1,550 million subject to adjustment; and
- ii) Proposed disposal of properties in Section 41, Township and District of Kuala Lumpur and State of Wilayah Persekutuan, Kuala Lumpur by KIMB to Tan Sri Dato' Paduka Kua Sian Kooi to be satisfied in cash.

On 11th July 2012, the Company has obtained approval from its shareholders for the above proposals.

Save as disclosed above, there were no other corporate proposals announced as at 24th August 2012 (the latest practicable date which shall not be earlier than 7 days from the date of issue of this quarterly report).

B7. Group borrowings and debt securities

The Group's borrowings and debt securities as at the end of the reporting period are as follow:

	RM'000
Secured long term loan	<u>360,000</u>

B8. Material litigation

There was no material litigation (outside the ordinary course of business of its insurance subsidiaries) as at 24th August 2012, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

B9. Proposed dividend

The Board of Directors does not propose any dividend for the period ended 30th June 2012.

B10. Earnings per share

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/06/2012	30/06/2011	30/06/2012	30/06/2011
Basic				
Profit for the period attributable to ordinary shareholders (RM'000)	23,358	14,625	47,961	28,925
Weighted average no. of ordinary shares in issue ('000)	1,491,476	1,488,423	1,489,949	1,488,423
Basic earnings (loss) per ordinary share (sen)	1.57	0.98	3.22	1.94

B11. Profit for the period

Profit for the period is arrived at after (charging) / crediting:

	Individual Quarter		Cumulative Quarter	
	Current Year	Restated	Current Year	Restated
		Preceding Year		Preceding Year
	30-Jun-2012	30-Jun-2011	30-Jun-2012	30-Jun-2011
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after (charging) / crediting:				
Interest income	8,910	9,886	17,816	19,842
Other income including investment income	35,109	30,548	79,102	65,542
Interest expense	(5,975)	(5,205)	(11,413)	(10,251)
Depreciation and amortisation	(2,846)	(3,298)	(5,630)	(7,013)
Provision for and write off of receivable	2,025	2,059	362	1,513
Gain or (loss) on disposal of quoted investment	2,121	2,927	(275)	5,411
Gain or (loss) on disposal of properties, plants and equipments	361	57	329	160
Impairment of assets	-	351	-	351
Foreign exchange gain or loss	237	(91)	401	(93)

Other than the above, there were no gain or loss on disposal of unquoted investment, gain or loss on derivatives and exceptional items for the current quarter ended 30th June 2012.

B12. Changes in Accounting Policies

As stated in Note A1, these are the Group's first consolidated financial statements prepared in accordance with MFRSs.

In preparing the opening MFRSs statement of financial position, the Group has adjusted amounts reported in the previous financial statements which were prepared in accordance with the previous Financial Reporting Standards ("FRSs"). An explanation of how the transition from the previous FRSs to the new MFRSs has affected the Group's financial position, financial performance and cash flow is set out in the following tables and the notes that accompany these tables.

a) Reconciliation of financial position

	Note	Effect of transition to MFRSs			Effect of transition to MFRSs			Effect of transition to MFRSs		
		FRSs RM'000	01-Jan-2011 RM'000	MFRSs RM'000	FRSs RM'000	30-Jun-2011 RM'000	MFRSs RM'000	FRSs RM'000	31-Dec-2011 RM'000	MFRSs RM'000
Assets										
Property and equipment	A1.a	202,236	30,901	233,137	233,112	(1,841)	231,271	231,161	(1,822)	229,339
Goodwill		-	-	-	-	-	-	-	-	-
Investment property	A1.b	7,500	213	7,713	7,713	-	7,713	7,713	-	7,713
Investments in subsidiaries		-	-	-	-	-	-	-	-	-
Investments in associates	A1.c	13,279	(10,512)	2,767	13,572	(10,512)	3,060	14,668	(10,512)	4,156
Investments in debt and equity securities		-	-	-	-	-	-	-	-	-
- financial assets - HTM		63,278	-	63,278	63,153	-	63,153	62,123	-	62,123
- financial assets - AFS		975,928	-	975,928	1,007,237	-	1,007,237	947,342	-	947,342
- financial assets - HFT		141,482	-	141,482	146,971	-	146,971	156,298	-	156,298
- financial assets - Loans and receivables		522,158	-	522,158	463,868	-	463,868	469,171	-	469,171
Reinsurance assets		372,759	-	372,759	466,210	-	466,210	551,273	-	551,273
Insurance receivables		52,851	-	52,851	48,079	-	48,079	56,832	-	56,832
Other receivables, deposits and prepayments		35,187	-	35,187	82,232	-	82,232	80,333	-	80,333
Deferred acquisition costs		36,275	-	36,275	24,720	-	24,720	26,070	-	26,070
Deferred tax assets		1,172	-	1,172	1,208	-	1,208	3,670	110	3,780
Current tax assets		30,613	(53)	30,560	33,587	(53)	33,534	23,746	-	23,746
Cash and cash equivalents		129,632	-	129,632	52,906	-	52,906	130,771	-	130,771
Total assets		2,584,350	20,549	2,604,899	2,644,568	(12,406)	2,632,162	2,761,171	(12,224)	2,748,947
Shareholders' equity										
Share capital		375,000	-	375,000	375,000	-	375,000	375,000	-	375,000
Reserves	A1.a & c	10,938	2,504	13,442	44,594	(28,242)	16,352	36,689	(28,242)	8,447
Accumulated losses	B12.d.(ii)	(58,147)	16,537	(41,610)	(28,684)	15,999	(12,685)	(10,303)	16,018	5,715
		327,791	19,041	346,832	390,910	(12,243)	378,667	401,386	(12,224)	389,162
Minority interest		6	-	6	6	-	6	6	-	6
Shareholders' equity		327,797	19,041	346,838	390,916	(12,243)	378,673	401,392	(12,224)	389,168
Liabilities										
Insurance contract liabilities		1,669,152	-	1,669,152	1,608,089	-	1,608,089	1,690,838	-	1,690,838
Deferred tax liabilities	B12.d.(i)	5,928	1,508	7,436	8,339	(163)	8,176	-	-	-
Other financial liabilities		435,322	-	435,322	447,330	-	447,330	450,630	-	450,630
Insurance payables		29,630	-	29,630	88,565	-	88,565	87,373	-	87,373
Tax payables		249	-	249	23	-	23	629	-	629
Other payables		90,728	-	90,728	73,514	-	73,514	102,976	-	102,976
Staff retirement benefits		25,544	-	25,544	27,792	-	27,792	27,333	-	27,333
Total liabilities		2,256,553	1,508	2,258,061	2,253,652	(163)	2,253,489	2,359,779	-	2,359,779
Total liabilities and shareholders' equity		2,584,350	20,549	2,604,899	2,644,568	(12,406)	2,632,162	2,761,171	(12,224)	2,748,947
Net Assets Value per ordinary share of RM0.25 each (SEN)		22.02		23.30	26.26		25.44	26.97		26.15

b) Reconciliation of profit or loss and other comprehensive income

	Note	Effect of transition to			Effect of transition to			Effect of transition to		
		FRSs	MFRSs	MFRSs	FRSs	MFRSs	MFRSs	FRSs	MFRSs	MFRSs
		3 months ended 30/06/2011			6 months ended 30/06/2011			12 months ended 31/12/2011		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Gross written premiums		261,444		261,444	531,757		531,757	1,109,729		1,109,729
Change in unearned premiums provision		3,518		3,518	(1,187)		(1,187)	(41,094)		(41,094)
Gross earned premiums		264,962		264,962	530,570		530,570	1,068,635		1,068,635
Premium ceded to reinsurers		(75,778)		(75,778)	(130,579)		(130,579)	(294,017)		(294,017)
Net earned premiums		189,184		189,184	399,991		399,991	774,618		774,618
Other income		45,880		45,880	85,384	(213)	85,171	177,021	-	177,021
Net claims incurred		(135,178)		(135,178)	(276,016)		(276,016)	(548,078)		(548,078)
Other expenses	A1.a	(79,073)	(530)	(79,603)	(166,913)	(378)	(167,291)	(342,185)	(359)	(342,544)
Operating profit		20,813		20,283	42,446		41,855	61,376		61,017
Share of net loss of equity accounted associate		(157)		(157)	(513)		(513)	(557)		(557)
Profit before taxation		20,656		20,126	41,933		41,342	60,819		60,460
Tax expense		(5,644)		(5,644)	(12,470)	53	(12,417)	(12,975)		(12,975)
Net profit for the period		15,012		14,482	29,463		28,925	47,844		47,485
Other comprehensive income										
Foreign currency translation differences for foreign operation		555		555	691		691	463		463
Fair value change of available-for-sale financial assets		2,775		2,775	2,219		2,219	(5,458)		(5,458)
Revaluation on properties		30,746		30,746	30,746		30,746	30,746	(30,746)	-
Other comprehensive income for the period		34,076		34,076	33,656		33,656	25,751		(4,995)
Total comprehensive income for the period		49,088		48,558	63,119		62,581	73,595		42,490
Earnings per share (sen) - Basic		1.01		0.97	1.98		1.94	3.21		3.19

c) Material adjustments to the statement of cash flows

There are no material differences between the statement of cash flows presented under the MFRSs compared to that presented under FRSs.

d) Notes to reconciliations

i) Income tax

The changes that have affected deferred tax liabilities are as follows:

	01-Jan-2011 RM'000	30-Jun-2011 RM'000	31-Dec-2011 RM'000
Fair value as deemed cost of property, plant and equipment	1,508	(163)	(110)
Increase / (Decrease) in deferred tax liabilities (assets)	1,508	(163)	(110)

ii) Retained earnings

The changes that have affected retained earnings are as follows:

	01-Jan-2011 RM'000	30-Jun-2011 RM'000	31-Dec-2011 RM'000
Fair value as deemed cost of property, plant and equipment	29,393	29,068	29,034
Fair value as deemed cost of investment property	160	(53)	-
Reclassification of translation reserve to retained earnings	(2,504)	(2,504)	(2,504)
Fair value as deemed cost of investment in associate company	(10,512)	(10,512)	(10,512)
Increase in retained earnings	16,537	15,999	16,018

B13. Supplementary information on the breakdown of realised and unrealised profits or loss

The breakdown of the Group's retained earnings as at 30th June 2012, into realised and unrealised profits, pursuant to the directive, is as follows:

	As At 30/06/2012	As At 31/12/2011 Restated
	<u>RM'000</u>	<u>RM'000</u>
Total retained earnings (accumulated losses) of the Group		
-Realised	23,418	(44,681)
-Unrealised	36,127	54,515
	<u>59,545</u>	<u>9,834</u>
Total share of retained earnings (accumulated losses) from associate		
-Realised	(5,869)	(4,119)
-Unrealised	-	-
	<u>53,676</u>	<u>5,715</u>
Consolidation adjustment	-	-
Total retained earnings (accumulated losses) as per financial statement	<u><u>53,676</u></u>	<u><u>5,715</u></u>

The above determination of realised and unrealised profits is compiled based on Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, issued by the Malaysian Institute of Accountants on 20th December 2010.

The disclosure of realised and unrealised profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

KUALA LUMPUR
DATE: 29th August 2012
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