

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 *IAS 34, Interim Financial Reporting*; and Paragraph 9.22 of the Main Market Listing Requirements of 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	01-Jan-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of profit or loss and other comprehensive income		
Depreciation on property, plant and equipment	-	(3,902)
Impairment loss	-	-
	<u>-</u>	<u>(3,902)</u>
Consolidated statement of financial position		
Fair value as deemed cost of property, plant and equipment	30,901	(1,822)
Reclassification of revaluation reserve to retained earnings	-	30,746
Related tax effect	(1,508)	110
Adjustment to retained earnings	<u>29,393</u>	<u>29,034</u>

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 measure investment property at cost and elected to apply optional exemption to use fair value as deemed cost.

The impact arising from the change is summarised as follows:

Investment property	01-Jan-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of financial position		
Fair value as deemed cost of investment property	213	-
Related tax effect	(53)	-
Adjustment to retained earnings	<u>160</u>	<u>-</u>

c) Translation reserve

Upon transition to MFRSs, the Group elected to apply the optional exemption to zeroise the cumulative translation differences for all its foreign operations.

The impact arising from the change is summarised as follows:

Translation reserve	01-Jan-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of financial position		
Reclassification of translation reserve to retained earnings	(2,504)	(2,504)
Adjustment to retained earnings	<u>(2,504)</u>	<u>(2,504)</u>

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	01-Jan-2011 RM'000	31-Dec-2011 RM'000
Consolidated statement of financial position		
Fair value as deemed cost of investment in associate company	(10,512)	(10,512)
Adjustment to retained earnings	<u>(10,512)</u>	<u>(10,512)</u>

A1.2. Discontinued operation

On 26th September 2012, KSK Group Berhad (formerly known as Kurnia Asia Berhad) ("Company") disposed of its 100% equity interest in Kurnia Insurans (Malaysia) Berhad ("KIMB") to AmG Insurance Berhad (AMG) ("KIMB Disposal"). Following thereon, KIMB's financial results have been 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 discontinued operation for the period are as follows:

	Individual Quarter		Cumulative Quarter	
	Current Year 31-Dec-2012 RM'000	Preceding Year 31-Dec-2011 RM'000	Current Year 31-Dec-2012 RM'000	Preceding Year 31-Dec-2011 RM'000
Operating revenue	-	283,563	888,652	1,133,539
Gross written premiums	-	280,640	833,226	1,072,684
Change in unearned premiums provision	-	(16,687)	(6,549)	(31,461)
Gross earned premiums	-	263,953	826,677	1,041,223
Premium ceded to reinsurers	-	(75,530)	(252,397)	(277,022)
Net earned premiums	-	188,423	574,280	764,201
Other income	-	52,656	134,545	173,383
Net claims incurred	-	(140,200)	(366,754)	(540,063)
Other expenses	-	(75,318)	(208,816)	(297,559)
Operating profit	-	25,561	133,255	99,962
Share of net loss of equity accounted associate	-	-	-	-
Profit before taxation	-	25,561	133,255	99,962
Tax expense	-	(1,760)	(33,638)	(13,863)
Net profit for the period	-	23,801	99,617	86,099

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, A10, B1 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 second quarter of the year, the Company has disposed of 11,577,400 treasury shares at an 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 the 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

On 26th November 2012, the Board of Directors proposed a single tier interim dividend of RM0.02 per share. The dividend totaled RM30 million was paid out on 24th December 2012.

A8. Segmental information

Following the KIMB Disposal, the Group's previous reportable segment "underwriting business in Malaysia" has been classified and presented as "Discontinued operation".

For "Continuing operation", the Group identified the following reportable segments:

- "Underwriting business" segment which represents insurance business in Indonesia;
- "Investment holding" segment which represents company level of KSK Group Berhad ; and
- "Others" being non-reportable segments which are made up of other entities within the Group

RM'000	Current Year-to-date (31/12/2012)					Preceding Year-to-date (31/12/2011) Restated				
	Discontinued operation	Continuing operation			Total	Discontinued operation	Continuing operation			Total
Underwriting business		Investment holding	Others	Underwriting business			Investment holding	Others		
By operating segments										
Operating revenue	888,652	50,886	9,434	-	948,972	1,133,539	27,726	-	-	1,161,265
Segment results	99,617	(8,832)	785,136	1,093	877,014	86,099	(6,564)	(33,475)	1,822	47,882
Share of (loss) profit from associate company					(3,677)					(557)
Net profit for the year					873,337					47,325
Segment assets	-	70,392	1,149,407	1,153	1,220,952	2,670,115	43,293	2,151	5,863	2,721,422
Unallocated assets					2,329					27,525
Total assets					1,223,281					2,748,947
Segment liabilities	-	41,449	10,842	37	52,328	1,926,134	35,972	393,883	3,162	2,359,151
Unallocated liabilities					164					628
Total liabilities					52,492					2,359,779

"Discontinued operation" contributed RM99.617 million (2011: RM86.099 million) to the Group's results for the period under review.

Included in the net results of "Investment holding" is the gain arising from KIMB Disposal amounting to RM806.595 million, net of RM28.506 million incidental professional fees incurred.

A9. Material events not reflected in the financial statements

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

On 26th September 2012, the Company announced the completion of KIMB Disposal. Following thereon, the Company ceased control of KIMB.

On 12th October 2012, the Company announced that Kurnia (Cambodia) Incorporated Co. Ltd. ("KCI"), a subsidiary of the Company held through KSK Financial Holdings Pte. Ltd (formerly known as Kurnia Asia Pte.Ltd) ("KSKFH") was dissolved with effect from 12th October 2012. KCI has not commenced operation and has been dormant since its incorporation in 2010.

During the quarter, the Company incorporated the following subsidiary companies:

Date	Company name	Intended business activity
14 th December 2012	KSK KD Property Sdn Bhd	Property investment
17 th December 2012	KSK Land Sdn Bhd	Investment holding
17 th December 2012	KSK Investment Sdn Bhd	Management of the Group's investible funds
17 th December 2012	KSK Management Sdn Bhd	Provision of management and consultancy services to companies within the Group
18 th December 2012	KSK Investment (L) Ltd	Management of the Group's investible funds

Save as disclosed above, there were no changes in the composition of the Group during the financial period under review.

A11. Contingent liabilities

As 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 subsidiary, PT KSK Insurance Indonesia (formerly known as Kurnia Insurance Indonesia) ("KSKII") and its associate company, KSK Insurance (Thailand) Public Company Limited (formerly known as KSK Insurance (Thailand) Co., Ltd and Kurnia Insurance (Thailand) Co., Ltd.) ("KSKIT").

A12. Capital commitments

Capital commitments not provided for in the interim financial report as at 31st December 2012 is as follow:

	RM'000
Investment property	
- approved and contracted for	<u>14,712</u>

Save as disclosed above, there is no material capital commitments not provided for in the interim financial report as at 31st December 2012.

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 RM873.337 million for the year under review, compared to RM47.325 million recorded last year. The significant rise in profit was mainly attributable to the gain derived from the KIMB Disposal which totaled RM806.595 million, net of RM28.506 million incidental professional fees incurred.

The discontinued operation, namely KIMB contributed RM99.617 million (2011: RM86.099 million) to the Group's net profit for the year under review.

Accordingly, as at 31st December 2012, the net asset value of the Group improved to RM1.177 billion (31st December 2011, restated: RM389.168 million), translating to a Net Asset Value per share of 78.05 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 recorded a pre-tax loss of RM7.637 million during 4Q period, compared to the RM841.791 million recorded in the preceding quarter. Included in the pre-tax loss in the current quarter is the reversal of approximately RM6.0 million other income over-recognised in the preceding quarter. As explained in Note B1, the significant pre-tax profit recorded in the preceding quarter was due to the gain derived from the KIMB Disposal.

B3. Prospects for the next financial year

Following the completion of KIMB Disposal on 26th September 2012, the Group 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 31/12/2012	Preceding Year-to-date 31/12/2011	Current Year-to-date 31/12/2012	Preceding Year-to-date 31/12/2011
(Loss)/ Profit before tax	(7,637)	9,877	909,369	60,246
Current year tax expense	310	(1,255)	36,032	12,921
Deferred tax expense	-	-	-	-
Total tax expense	310	(1,255)	36,032	12,921
Effective tax rate (%)	NA	NA	3.96	21.45

The effective tax rate of the Group for the year is lower than the statutory tax rate mainly due to the huge gain arising from the KIMB Disposal amounted to RM806.595 million, which was not taxable.

B6. Status of corporate proposals

On 26th September 2012, the Company announced the completion of the following transactions:

- a) Disposal by the Company of its 100% equity interest in KIMB to AmG for a total cash consideration of RM1,627,206,071; and
- b) 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 satisfied in cash.

On 4th October 2012, Bursa Securities had vide its letter notified the Company that it is a "Cash Company" pursuant to Paragraph 8.03(1) and Practice Note 16 of the Listing Requirements. As a "Cash Company", the Company must regularise its condition within the timeframe and in the manner prescribed in Listing Requirements.

As at the date of this report, the Company is still looking into formulating a plan to regularise its financial condition.

Save as disclosed above, there were no other corporate proposals announced as at 22nd February 2013 (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

Following the repayment of the entire outstanding term loan during the last quarter, the Group has no outstanding borrowings and debt securities as at the end of the reporting period.

B8. Material litigation

There was no material litigation (outside the ordinary course of business of its insurance subsidiaries) as at 22nd February 2013, the latest practicable date that is not earlier than 7 days from the date of issue of this quarterly report.

B9. Proposed dividend

On 26th November 2012, the Board of Directors proposed a single tier interim dividend of RM0.02 per share. The dividend totaled RM30 million was paid out on 24th December 2012.

B10. Earnings per share - Basic

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Weighted average no. of ordinary shares in issue ('000)	1,500,000	1,488,423	1,495,002	1,488,423
Profit for the period attributable to ordinary shareholders (RM'000)				
- Continuing operations	(7,947)	(12,669)	773,720	(38,774)
- Discontinued operation	-	23,801	99,617	86,099
	(7,947)	11,132	873,337	47,325
Basic earnings (loss) per ordinary share (sen)				
- Continuing operations	(0.53)	(0.85)	51.75	(2.61)
- Discontinued operation	-	1.60	6.66	5.78
	(0.53)	0.75	58.42	3.18

B11. Profit for the period

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

	Individual Quarter		Cumulative Quarter	
	Current Year	Restated Preceding Year	Current Year	Restated Preceding Year
	31-Dec-2012	31-Dec-2011	31-Dec-2012	31-Dec-2011
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after (charging) / crediting:				
Interest income	22,157	8,783	49,471	38,205
Other income including investment income	(15,737)	44,964	104,237	138,816
Interest expense	-	(6,713)	(16,828)	(22,451)
Depreciation and amortisation	(559)	(2,544)	(5,220)	(13,534)
Provision for and write off of receivable	219	(459)	(365)	1,414
Gain or (loss) on disposal of quoted investment	-	367	1,428	6,772
Gain or (loss) on disposal of subsidiary, KIMB #	(28,506)	-	806,595	-
Gain or (loss) on disposal of properties, plants and equipments	-	(25)	5,821	817
Impairment of assets	-	-	-	351
Foreign exchange gain or loss	40	422	593	334
#RM28.506 million - Being reclassification of professional fees incurred in relation to the KIMB Disposal, previously accounted for under "professional fees"				

Other than the above, there were no gain or loss on derivatives and exceptional items for the current quarter ended 31st December 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.

c) Reconciliation of financial position

	Note	Effect of transition to MFRSs			Effect of transition to MFRSs		
		FRSs RM'000	01-Jan-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	231,161	(1,822)	229,339
Goodwill		-	-	-	-	-	-
Investment property	A1.b	7,500	213	7,713	7,713	-	7,713
Investments in subsidiaries		-	-	-	-	-	-
Investments in associates	A1.c	13,279	(10,512)	2,767	14,668	(10,512)	4,156
Investments in debt and equity securities		-	-	-	-	-	-
- financial assets - HTM		63,278	-	63,278	62,123	-	62,123
- financial assets - AFS		975,928	-	975,928	947,342	-	947,342
- financial assets - HFT		141,482	-	141,482	156,298	-	156,298
- financial assets - Loans and receivables		522,158	-	522,158	469,171	-	469,171
Reinsurance assets		372,759	-	372,759	551,273	-	551,273
Insurance receivables		52,851	-	52,851	56,832	-	56,832
Other receivables, deposits and prepayments		35,187	-	35,187	80,333	-	80,333
Deferred acquisition costs		36,275	-	36,275	26,070	-	26,070
Deferred tax assets		1,172	-	1,172	3,670	110	3,780
Current tax assets		30,613	(53)	30,560	23,746	-	23,746
Cash and cash equivalents		129,632	-	129,632	130,771	-	130,771
Total assets		2,584,350	20,549	2,604,899	2,761,171	(12,224)	2,748,947
Shareholders' equity							
Share capital		375,000	-	375,000	375,000	-	375,000
Reserves	A1.a & c	10,938	2,504	13,442	36,689	(28,242)	8,447
Retained profits	B12.d.(ii)	(58,147)	16,537	(41,610)	(10,303)	16,018	5,715
		327,791	19,041	346,832	401,386	(12,224)	389,162
Minority interest		6	-	6	6	-	6
Shareholders' equity		327,797	19,041	346,838	401,392	(12,224)	389,168
Liabilities							
Insurance contract liabilities		1,669,152	-	1,669,152	1,690,838	-	1,690,838
Deferred tax liabilities	B12.d.(i)	5,928	1,508	7,436	-	-	-
Other financial liabilities		435,322	-	435,322	450,630	-	450,630
Insurance payables		29,630	-	29,630	87,373	-	87,373
Tax payables		249	-	249	629	-	629
Other payables		90,728	-	90,728	102,976	-	102,976
Staff retirement benefits		25,544	-	25,544	27,333	-	27,333
Total liabilities		2,256,553	1,508	2,258,061	2,359,779	-	2,359,779
Total liabilities and shareholders' equity		2,584,350	20,549	2,604,899	2,761,171	(12,224)	2,748,947
Net Assets Value per ordinary share of RM0.25 each (SEN)		22.02		23.30	26.97		26.15

d) Reconciliation of profit or loss and other comprehensive income

	Note	Effect of transition to			Effect of transition to		
		FRSs	MFRSs	MFRs	FRSs	MFRSs	MFRSs
		3 months ended 31/12/2011			12 months ended 31 December 2011		
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross written premiums		295,071		295,071	1,109,729		1,109,729
Change in unearned premiums provision		(22,437)		(22,437)	(41,094)		(41,094)
Gross earned premiums		272,634		272,634	1,068,635		1,068,635
Premium ceded to reinsurers		(80,762)		(80,762)	(294,017)		(294,017)
Net earned premiums		191,872		191,872	774,618		774,618
Other income		53,745	-	53,745	177,021	(213)	176,808
Net claims incurred		(142,803)		(142,803)	(548,078)		(548,078)
Other expenses	A1.a	(93,417)	19	(93,398)	(342,185)	(359)	(342,544)
Operating profit		9,397		9,416	61,376		60,804
Share of net loss of equity accounted associate		461		461	(557)		(557)
Profit before taxation		9,858		9,877	60,819		60,247
Tax expense		1,255	-	1,255	(12,975)	53	(12,922)
Net profit for the period		11,113		11,132	47,844		47,325
Other comprehensive income							
Foreign currency translation differences for foreign operation		(426)	-	(426)	463		463
Fair value change of available-for-sale financial assets		(1,232)	-	(1,232)	(5,458)		(5,458)
Revaluation on properties		(0)	-	(0)	30,746	(30,746)	-
Other comprehensive income for the period		(1,658)		(1,658)	25,751		(4,995)
Total comprehensive income for the period		9,455		9,474	73,595		42,330
Earnings per share (sen) - Basic		0.75		0.75	3.21		3.18

e) Material adjustments to the statement of cash flows

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

f) Notes to reconciliations

i) Income tax

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

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

ii) Retained earnings

The changes that have affected retained earnings are as follows:

	01-Jan-2011 RM'000	31-Dec-2011 RM'000
Fair value as deemed cost of property, plant and equipment	29,393	29,034
Fair value as deemed cost of investment property	160	-
Reclassification of translation reserve to retained earnings	(2,504)	(2,504)
Fair value as deemed cost of investment in associate company	(10,512)	(10,512)
Increase in retained earnings	16,537	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 31st December 2012, into realised and unrealised profits, pursuant to the directive, is as follows:

	As At 31/12/2012	As At 31/12/2011 Restated
	<u>RM'000</u>	<u>RM'000</u>
Total retained earnings (accumulated losses) of the Group		
-Realised	793,781	(44,681)
-Unrealised	2,236	54,515
	<hr/> 796,017	<hr/> 9,834
Total share of retained earnings (accumulated losses) from associate		
-Realised	(7,841)	(4,119)
-Unrealised	45	-
	<hr/> 788,221	<hr/> 5,715
Consolidation adjustment	-	-
Total retained earnings as per financial statement	<hr/> <u>788,221</u>	<hr/> <u>5,715</u>

The above determination of realised and unrealised profits is compiled based on Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures 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: 25th February 2013
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