

# KSK GROUP 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 31 December 2012.

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 31 December 2012, except for the adoption of the following applicable new MFRS, the revised MFRS and amendments to MFRS issued by the Malaysian Accounting Standards Board:

- MFRS 10 *Consolidated financial statements*
- MFRS 12 *Disclosures of interests in other entities*
- MFRS 13 *Fair value measurement*
- MFRS 119 *Employee Benefits*
- Amendment to MFRS 101 *Presentation of items of other comprehensive income*
- Amendment to MFRS 1 *Government Loans*
- Amendment to MFRS 7 *Financial Instruments: Disclosures*
- The revised MFRS 127 *Separate financial statements*
- The revised MFRS 128 *Investments in associates and joint ventures*
- MFRS 3 *Business Combination*
- Annual Improvements 2009-2011 Cycle

### **A2. Preceding year’s audit report**

The annual financial statements of the Group for financial year ended 31 December 2012 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, A11 and B1.

### **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**

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 identified the following reportable segments:

- “Underwriting business” which represents the Group’s insurance business in Indonesia and Thailand (refer to Note A10 for the details on the Group’s equity shareholdings in KSK Insurance (Thailand) Public Company Limited (“KSKIT”) and inclusion of KSKIT as subsidiary of the Group effective 26 February 2013);
- “Investment holding” which refers to the Company’s investment activities; and
- “Others” being non-reportable segments which are made up of other entities within the Group

“Discontinued operation” in the comparative refers to the underwriting business in Malaysia which the Group has disposed of on 26 September 2012.

RM'000	Current Year-to-date (31/03/2013)					Preceding Year-to-date (31/03/2012)				
	Discontinued operation	Continuing operations			Total	Discontinued operation	Continuing operations			Total
Underwriting businesses		Investment holding	Others	g Investment businesses			holding	Others		
By operating segments										
Operating revenue	-	23,751	6,140	-	29,891	290,331	10,962	-	-	301,293
Segment results	-	(12,393)	2,368	(7)	(10,032)	33,860	(691)	(7,529)	714	26,354
Share of loss from associate company					(128)					(1,751)
Net profit for the year					<u>(10,160)</u>					<u>24,603</u>
Segment assets	-	244,167	1,118,610	21,777	1,384,554	2,718,256	43,522	2,356	4,292	2,768,426
Unallocated assets					5,498					12,623
Total assets					<u>1,390,052</u>					<u>2,781,049</u>
Segment liabilities	-	201,693	9,963	32	211,688	1,927,365	36,159	396,488	3,024	2,363,036
Unallocated liabilities					59					4,744
Total liabilities					<u>211,747</u>					<u>2,367,780</u>

For the current period under review, the Group reported net loss of RM10.160 million, mainly derived from the losses recorded by underwriting businesses. On the investment holding segment, majority of the funds has been placed with custodian as part of the Company’s obligations as “Cash Company” pursuant to Paragraph 8.03(1) and Practice Note 16 of the Main Market Listing Requirements, generating minimal returns.

## 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 26 February 2013, the Group had increased its equity shareholdings in KSKIT from 25% to 41%, by subscribing to the entire THB300 million rights issue undertaken by KSKIT ("Rights Issue").

The remaining shareholder of KSKIT, KCJ Company Ltd ("KCJ") did not participate in the Rights Issue. Further, KCJ has also submitted its intention to KSKIT that it will no longer be participating in any further fund raising exercise of KSKIT. As a result, KCJ has undertaken to fully extinguish its rights and influence as shareholder of KSKIT in relation to the appointment of directors and the management oversight on KSKIT.

Consequently, the Group has assumed the control of KSKIT upon the completion of the Rights Issue and has consolidated KSKIT results as a subsidiary thereon.

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

#### **A11. Contingent liabilities**

Save as disclosed below, at the date of this report, there does not exist any contingent liability of the Group as at 31 March 2013:

- Pursuant to the sale and purchase agreement between the Company and AmG Insurance Berhad ("AmG") in respect the disposal of equity interest in Kurnia Insurans (Malaysia) Berhad ("KIMB") on 26 September 2012 ("KIMB Disposal"), RM75 million has been retained with an escrow agent to meet certain potential liabilities of the Company, including the warranties as agreed between the Company and AmG on the KIMB Disposal. Such amount shall be retained for a period of up to 30 months from the completion date of the Disposal of 26 September 2012, of which RM25 million may be released 18 months from the completion date.
- Pursuant to the KIMB Disposal, the Company and AmG had jointly appointed an independent actuary to determine the net outstanding claims liabilities of KIMB as at 30 June 2012. Based on the independent actuary's determination, the Company has set aside an amount of RM100 million with an escrow agent for a period of 6 years from 1 July 2012. Such amount will be used to meet any potential claims made by KIMB under a reinsurance agreement entered into between KIMB and a reinsurer as part of the terms of the KIMB Disposal. There is no certainty that KIMB will not claim against this amount.

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, PT KSK Insurance Indonesia ("KSKII") and KSKIT.

#### **A12. Capital commitments**

There is no material capital commitments not provided for in the interim financial report as at 31 March 2013.

## **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 loss of RM10.160 million for the period under review, compared to the profit of RM24.603 million recorded in the corresponding period last year.

The net profit of previous year was mainly derived from the discontinued operation, with continuing operations recorded RM9.257 million losses.

Accordingly, as at 31 March 2013, the net asset value attributable to the owners of the Company of the Group stood as RM1.164 billion (31 December 2012: RM1.170 billion), translating to a net asset value per share of 77.63 sen (31 December 2012: 78.00 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 RM9.831 million during the quarter, compared to a loss of RM11.587 million recorded in the preceding quarter.

### **B3. Prospects for the remaining of the financial year**

Following the KIMB Disposal, the Company has been classified as “Cash Company” pursuant to Paragraph 8.03(1) and Practice Note 16 of the Main Market Listing Requirements. The Company must regularise its condition within the timeframe and in the manner prescribed in Main Market Listing Requirements. Whilst the Company has been actively looking into formulating a plan to regularise its financial condition since then, it has not identified any viable core business.

On 27 March 2013, the major shareholder of the Company, Tan Sri Dato' Paduka Kua Sian Kooi, has requested the Company to undertake a selective capital reduction and repayment exercise pursuant to Section 64 of the Companies Act, 1965 (“Proposed SCR”) which entails a capital repayment of a proposed cash amount of RM0.65 per ordinary share of RM0.25 each in the Company held by the entitled shareholders of the Company on an entitlement date to be determined.

On 9 April 2013, the Board of Directors of the Company (excluding the Directors who are deemed interested in the Proposed SCR) deliberated on the Proposed SCR and has decided to present the Proposed SCR to the shareholders of the Company for their consideration.

Subject to the approval from the relevant authorities and shareholders accepting the Proposed SCR at an extraordinary general meeting to be convened, the continuing operations of the Group will be maintained and operated on an on-going concern basis.

### **B4. Variance of actual profit from forecast profit**

Not applicable.

**B5. Tax expense**

RM'000	Individual Quarter		Cumulative Quarter	
	Current Year 31/03/2013	Preceding Year-to-date 31/03/2012	Current Year-to-date 31/03/2013	Preceding Year-to-date 31/03/2012
(Loss)/ Profit before tax	(9,831)	34,783	(9,831)	34,783
Current year tax expense	329	10,180	329	10,180
Deferred tax expense	-	-	-	-
Total tax expense	329	10,180	329	10,180
Effective tax rate (%)	N/A	32.3	N/A	32.3

Whilst the Group recorded pre-tax loss as a whole for the period under review, tax expense was incurred by certain entities that were on net taxable income position.

For comparative, the effective tax rate of the Group was higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes.

**B6. Status of corporate proposals**

On 27 March 2013, the Company received a letter from Tan Sri Dato' Paduka Kua Sian Kooi, being the major shareholder of Company, requesting for the Company to undertake the Proposed SCR. The Proposed SCR entails a capital repayment of a proposed cash amount of RM0.65 per ordinary share of RM0.25 each in the Company held by the entitled shareholders of the Company on an entitlement date to be determined.

On 9 April 2013, the Board of Directors of the Company (excluding the Directors who are deemed interested in the Proposed SCR) deliberated on the Proposed SCR and has decided to present the Proposed SCR to the shareholders of the Company for their consideration.

Subsequently, on 29 April 2013, RHB Investment Bank Berhad on behalf of the Board of Directors of KSK, announced that the relevant applications in relation to the Proposed SCR have been submitted to the Securities Commission Malaysia and Bursa Malaysia Securities Berhad. As at the date hereof, the said applications are still pending the approvals of the authorities. The Proposed SCR will be presented to the shareholders of KSK for deliberation and approval in due course.

Save as disclosed above, there were no other corporate proposals announced as at 17 May 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**

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 17 May 2013, 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 31 March 2013.

**B10. Earnings per share - Basic**

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31/03/2013	31/03/2012	31/03/2013	31/03/2012
Weighted average no. of ordinary shares in issue ('000)	1,500,000	1,488,423	1,500,000	1,488,423
Profit for the period attributable to ordinary shareholders (RM'000)				
- Continuing operations	(6,457)	(9,257)	(6,457)	(9,257)
- Discontinued operation	-	33,860	-	33,860
	(6,457)	24,603	(6,457)	24,603
Basic earnings (loss) per ordinary share (sen)				
- Continuing operations	(0.43)	(0.62)	(0.43)	(0.62)
- Discontinued operation	-	2.27	-	2.27
	(0.43)	1.65	(0.43)	1.65

**B11. Profit for the period**

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

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	31-Mar-2013	31-Mar-2012	31-Mar-2013	31-Mar-2012
	RM'000	RM'000	RM'000	RM'000
<b>Profit for the period is arrived at after (charging) / crediting:</b>				
Interest income	1,152	14,647	1,152	14,647
Other income including investment income	9,180	38,253	9,180	38,253
Interest expense	-	(5,439)	-	(5,439)
Depreciation and amortisation	(598)	(2,784)	(598)	(2,784)
Provision for and write off of receivable	2	(1,662)	2	(1,662)
Gain or (loss) on disposal of quoted investment	1,341	-	1,341	(2,397)
Loss on disposal of unquoted investment	(794)	-	(794)	-
Gain or (loss) on disposal of properties, plants and equipments	-	(32)	-	(32)
Foreign exchange gain or loss	669	164	669	164

Other than the above, there were no gain or loss on derivatives and exceptional items for the current quarter ended 31 March 2013.

**B12. Supplementary information on the breakdown of realised and unrealised profits or loss**

The breakdown of the Group's retained earnings as at 31 March 2013, into realised and unrealised profits, pursuant to the directive, is as follows:

	As At 31/3/2013 <u>RM'000</u>	As At 31/12/2012 <u>RM'000</u>
Total retained earnings of the Group		
-Realised	775,265	789,814
-Unrealised	5,689	5,393
	<u>780,954</u>	<u>795,207</u>
Total share of accumulated losses from associate company		
-Realised	-	(7,841)
-Unrealised	-	45
	<u>780,954</u>	<u>787,411</u>
Consolidation adjustment	-	-
Total retained earnings as per financial statement	<u><u>780,954</u></u>	<u><u>787,411</u></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 20 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  
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