

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 (30/06/2013)					Preceding Year-to-date (30/06/2012)				
	Discontinued operation	Continuing operations			Total	Discontinued operation	Continuing operations			Total
Underwriting businesses		Investment holding	Others	Underwriting businesses			Investment holding	Others		
By operating segments										
Operating revenue	-	57,536	12,007	-	69,543	591,444	21,797	-	-	613,241
Segment results	-	(18,879)	3,264	(12)	(15,627)	67,404	(2,785)	(16,827)	860	48,652
Share of loss from associate company					(128)					(691)
Net profit for the year					<u>(15,755)</u>					<u>47,961</u>
Segment assets	-	274,329	1,119,858	13,456	1,407,643	2,672,844	43,835	82,228	3,170	2,802,077
Unallocated assets					15,347					10,039
Total assets					<u>1,422,990</u>					<u>2,812,116</u>
Segment liabilities	-	241,151	9,590	17	250,758	1,839,673	38,559	483,223	229	2,361,684
Unallocated liabilities					84					7,386
Total liabilities					<u>250,842</u>					<u>2,369,070</u>

For the current period under review, the Group reported net loss of RM15.755 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 30 June 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 30 June 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 RM15.755 million for the period under review, compared to the profit of RM47.961 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 RM19.443 million losses.

Accordingly, as at 30 June 2013, the net asset value attributable to the owners of the Company of the Group stood as RM1.160 billion (31 December 2012: RM1.170 billion), translating to a net asset value per share of 77.32 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 RM6.959 million during the quarter, compared to a loss of RM9.831 million recorded in the preceding quarter. The lower pre-tax loss was mainly due to improved underwriting performance by foreign insurance subsidiaries.

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.

On 16 August 2013, the Company has circulated notice to shareholders for Extraordinary General Meeting to be held on 27 August 2013 (EGM) in respect of Proposed SCR.

Subject to the approval from the relevant authorities and shareholders accepting the Proposed SCR at the EGM 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 30/06/2013	Preceding Year-to-date 30/06/2012	Current Year-to-date 30/06/2013	Preceding Year-to-date 30/06/2012
(Loss)/ Profit before tax	(6,959)	34,432	(16,790)	69,215
Current year tax expense	(1,364)	11,074	(1,035)	21,254
Deferred tax expense	-	-	-	-
Total tax expense	(1,364)	11,074	(1,035)	21,254
Effective tax rate (%)	19.6	32.2	6.2	30.7

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 16 August 2013, the Company has circulated notice to shareholders for an Extraordinary General Meeting to be held on 27 August 2013 (EGM), in which the Proposed SCR is to be presented to the shareholders of KSK for deliberation and approval.

Save as disclosed above, there were no other corporate proposals announced as at 23 August 2013 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 23 August 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 30 June 2013.

B10. Earnings per share - Basic

	Individual Quarter		Cumulative Quarter	
	Current Year	Preceding Year	Current Year	Preceding Year
	30/06/2013	30/06/2012	30/06/2013	30/06/2012
Weighted average no. of ordinary shares in issue ('000)	1,500,000	1,491,476	1,500,000	1,489,949
Profit for the period attributable to ordinary shareholders (RM'000)				
- Continuing operations	(1,892)	(10,186)	(11,120)	(19,443)
- Discontinued operation	-	33,544	-	67,404
	(1,892)	23,358	(11,120)	47,961
Basic earnings (loss) per ordinary share (sen)				
- Continuing operations	(0.13)	(0.68)	(0.74)	(1.30)
- Discontinued operation	-	2.25	-	4.52
	(0.13)	1.57	(0.74)	3.22

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
	30-Jun-2013	30-Jun-2012	30-Jun-2013	30-Jun-2012
	RM'000	RM'000	RM'000	RM'000
Profit for the period is arrived at after (charging) / crediting:				
Interest income	941	14,582	2,093	29,229
Other income including investment income	10,465	29,434	19,626	67,687
Interest expense	-	(5,975)	-	(11,413)
Depreciation and amortisation	(704)	(2,846)	(1,302)	(5,630)
Provision for and write off of receivable	1,274	2,025	1,277	362
Gain or (loss) on disposal of quoted investment	208	-	1,549	(275)
Loss on disposal of unquoted investment	-	-	(794)	-
Gain or (loss) on disposal of properties, plants and equipments	-	361	-	329
Foreign exchange gain or loss	(649)	237	20	401

Other than the above, there were no gain or loss on derivatives and exceptional items for the current quarter ended 30 June 2013.

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

The breakdown of the Group's retained earnings as at 30 June 2013, into realised and unrealised profits, pursuant to the directive, is as follows:

	As At 30/6/2013 RM'000	As At 31/12/2012 RM'000
Total retained earnings of the Group		
-Realised	762,014	789,814
-Unrealised	14,277	5,393
	<u>776,291</u>	<u>795,207</u>
Total share of accumulated losses from associate company		
-Realised	-	(7,841)
-Unrealised	-	45
	<u>776,291</u>	<u>787,411</u>
Consolidation adjustment	-	-
Total retained earnings as per financial statement	<u><u>776,291</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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