

MAA HOLDINGS BERHAD

NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2007

1. Basis of Preparation

The accounting policies and presentation adopted for the interim financial report are consistent with those adopted for the annual financial statements for the financial year ended 31 December 2006.

Certain comparative figures in the preceding financial year's corresponding period have been restated as required with the changes in accounting policies and other accounting matters to conform with the accounting treatments adopted as at previous financial year end.

6 months ended 30 June 2006

	<u>As previously stated</u> RM'000	<u>Reclassification of accounts</u> RM'000	<u>Effect of changes in accounting policies</u> RM'000	<u>As restated</u> RM'000
<u>CONDENSED CONSOLIDATED INCOME STATEMENT</u>				
<u>Shareholders' Fund</u>				
Operating revenue	1,541,044	(509,042)	-	1,032,002
Operating revenue from non- insurance subsidiaries	-	28,121	-	28,121
Other operating income/(expenses)– net	22,713	(33,122)	-	(10,409)
Management expenses	(32,455)	5,001	-	(27,454)
Taxation	(2,473)	-	169	(2,304)
<u>CONDENSED GENERAL INSURANCE REVENUE ACCOUNT</u>				
Management expenses	(43,802)	-	(602)	(44,404)
<u>CONDENSED LIFE INSURANCE REVENUE ACCOUNT</u>				
Management expenses	(47,904)	-	(2,547)	(50,451)
Taxation	(8,547)	-	204	(8,343)
Exchange reserves from Investment-linked fund	-	(552)	-	(552)
Life policyholders' fund at beginning of financial year	4,930,032	-	(55,957)	4,874,075

2. Preceding Year's Audit Report

The preceding financial year's annual financial statements were not qualified.

3. Seasonal or Cyclical Factors

The Group's business operations are not significantly affected by any seasonal or cyclical factors.

4. Extraordinary Items

There were no extraordinary items for the current financial period under review.

5. Change in Accounting Estimates

There is no change in basis used for accounting estimates for the current financial period under review.

6. Debt and Equity Securities

On 8 January 2007, the Company issued RM200 million nominal amount of Medium Terms Notes up to a tenure of 5 years.

Other than as stated, there is no other issuance, cancellation, replacement, resale and repayment of debt and equity securities during the current financial period under review.

7. Dividend Payment

There is no dividend payment by the Company during the current financial period under review.

8. Segmental Reporting

The Group operates in three main business segments: -

- Life insurance - underwriting life insurance business, including investment-linked business
- General insurance – underwriting all classes of general insurance business
- Unit trust fund management – management of unit trust funds

Other operations of the Group mainly comprise investment holding, hire purchase, leasing and other credit activities, property management and investment advising, security and consultancy services, none of which are of a significant size to be reported separately.

Intersegment sales comprise property management, fund management, security and consultancy services provided to the insurance business segments on an arms-length basis.

	Life insurance				Shareholders'		
	<u>Investment-linked fund</u>	<u>Non-investment-linked fund</u>	<u>General insurance fund</u>	<u>Unit trust fund management</u>	<u>fund and other operations</u>	<u>Eliminations</u>	<u>Group</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>6 months ended</u>							
<u>30.06.2007</u>							
<u>Operating Revenue</u>							
External revenue	134,386	690,200	236,630	22,253	22,813	-	1,106,282
Intersegment sales	-	1,504	94	-	9,116	(10,714)	-
Total operating revenue	<u>134,386</u>	<u>691,704</u>	<u>236,724</u>	<u>22,253</u>	<u>31,929</u>	<u>(10,714)</u>	<u>1,106,282</u>
<u>Results</u>							
Segment results	63,159	(11,322)	5,107	836	11,911	1,682	71,373
Transfer to Life reserve	(63,159)	11,322	-	-	-	-	(51,837)
Profit from operations	<u>-</u>	<u>-</u>	<u>5,107</u>	<u>836</u>	<u>11,911</u>	<u>1,682</u>	<u>19,536</u>
<u>6 months ended</u>							
<u>30.06.2006</u>							
<u>Operating Revenue</u>							
External revenue	110,277	658,888	227,103	10,860	24,874	-	1,032,002
Intersegment sales	-	1,521	39	-	8,176	(9,736)	-
Total operating revenue	<u>110,277</u>	<u>660,409</u>	<u>227,142</u>	<u>10,860</u>	<u>33,050</u>	<u>(9,736)</u>	<u>1,032,002</u>
<u>Results</u>							
Segment results	11,038	(43,109)	14,088	912	(5,848)	(446)	(23,365)
Transfer to Life reserve	(11,038)	43,109	-	-	-	-	32,071
Profit from operations	<u>-</u>	<u>-</u>	<u>14,088</u>	<u>912</u>	<u>(5,848)</u>	<u>(446)</u>	<u>8,706</u>

9. Carrying Amount of Revalued Assets

Investment properties and land and buildings of the Group have been carried at revalued amount at the financial year ended 31 December 2006. These revalued amounts have been carried forward to the current financial period.

10. Material Subsequent Events

There were no material subsequent events from the end of the current financial period under review to the date of this interim report.

11. Changes in Composition of the Group

MAA Takaful Berhad ("MAA Takaful"), a subsidiary company of the Company, had on 12 June 2007 allotted 99,999,998 ordinary shares of RM1.00 each comprising 74,999,998 and 25,000,000 ordinary shares to the Company and Solidarity Company BSC (Closed) ("Solidarity") respectively. Subsequent to the allotment, the total issued and paid up capital of MAA Takaful increased to RM100,000,000 and the equity participation of the Company and Solidarity in MAA Takaful is 75% and 25% respectively.

Bank Negara Malaysia had via its letter dated 15 June 2007 and received by MAA Takaful on 19 June 2007 registered MAA Takaful as a takaful operator under Section 8 of Takaful Act 1984 to undertake family takaful and general takaful businesses. The registration will be effective from 1 July 2007.

12. Contingencies

- (a) In the normal course of business, the insurance subsidiaries of the Company incur certain liabilities in the form of performance bonds and guarantees on behalf of customers. No material losses are anticipated as a result of these transactions.

Details of the Group's contingent liabilities are as follows: -

	<u>As at</u> <u>30.06.2007</u> RM'000	<u>As at</u> <u>31.12.2006</u> RM'000
Performance bonds and guarantees	<u>58,722</u>	<u>169,375</u>

- (b) In the previous financial year, Meridian Asset Management Sdn Bhd ("MAMS") had commenced a legal proceeding against one of its custodian of its fund under management and a legal proceeding against its former employee and other parties related to him to recover the loss of investment moneys of its clients, one of whom is Malaysian Assurance Alliance Berhad ("MAA"), amounting to RM27.6 million placed with the custodian. MAA has also commenced legal proceedings against the custodian for negligence to recover its loss.

The parties to the legal proceedings have filed various applications to the High Court to dispose of the cases. In the legal proceedings taken by MAA against the custodian, a Third Party Notice was filed and served on MAA to bring MAMS as a party to the legal proceedings. The High Court has allowed the terms of the summons for directions of the third party proceedings and has fixed 14 May 2007 for case management. The case has now been fixed for Mention on 23 July 2007. In the legal proceedings taken by MAMS against the custodian, the High Court has fixed 23 July 2007 for hearing of the custodian's application under Order 14A of the Rules of the High Court. The legal

proceeding taken by MAMS against the ex-staff and other parties is pending case management.

The directors of MAMS, supported by legal advice, are of the opinion that MAMS has a strong case against the custodian and the case against the ex-staff and other parties. However, for prudence purposes, MAA had made a full allowance of RM19.6 million in the financial statements for the year ended 31 December 2005. This allowance remains in the current financial year.

13. Capital Commitments

Capital commitments not provided for in the interim financial report as at 30 June 2007 is as follows:

Approved and contracted for	<u>RM'000</u> <u>54,986</u>
Analysed as follows: -	
- property, plant and equipment	3,917
- investment properties	<u>51,069</u>

14. Taxation

	<u>3 months ended</u>		<u>6 months ended</u>	
	<u>30.06.2007</u>	<u>30.06.2006</u>	<u>30.06.2007</u>	<u>30.06.2006</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current tax</u>				
Current financial period	926	-	2,256	168
Under/(over) accrual in prior financial year	2	(1,328)	2	-
	<u>928</u>	<u>(1,328)</u>	<u>2,258</u>	<u>168</u>
<u>Deferred tax</u>				
Current financial period	1,333	3,251	1,066	2,136
	<u>2,261</u>	<u>1,923</u>	<u>3,324</u>	<u>2,304</u>

For the current financial period under review, the effective tax rate is higher than the statutory tax rate as tax losses from certain offshore non-insurance subsidiary companies are not able to be utilised to set off profit made due to absence of group tax loss relief and certain charges and provision made which are not deductible for tax purposes.

15. Profit on Sale of Unquoted Investments and/or Properties

The profit from sale of unquoted investments and investment properties by the insurance subsidiaries for the current financial quarter and period amounted to RM0.3 million and RM0.1 million respectively.

16. Quoted Securities

There were no purchases or disposals of quoted securities by the Group other than by the insurance subsidiaries, which are exempted from disclosure of this information.

17. Status of Corporate Proposals

There is no corporate proposal that has been announced but not completed as at 21 August 2007 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

18. Group Borrowings

The Group borrowings include:

	<u>As at</u> <u>30.06.2007</u> RM'000	<u>As at</u> <u>31.12.2006</u> RM'000 (Audited)
<u>Short term</u>		
Bonds – unsecured	30,000	30,000
Term loan – secured	-	39,935
Bank overdraft – unsecured	2,595	26,002
	<u>32,595</u>	<u>95,937</u>
<u>Long term</u>		
Term loan – unsecured	30,000	30,000
Medium terms notes – secured	200,000	-
	<u>230,000</u>	<u>30,000</u>
Total Group Borrowings	<u>262,595</u>	<u>125,937</u>

19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 21 August 2007 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

20. Changes in Material Litigation

There were no material litigations as at 21 August 2007 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

21. Comparison with the Preceding Quarter's Results

For the current financial quarter under review, the Group registered a profit before taxation of RM9.1 million as compared to a profit before taxation of RM1.4 million in the preceding financial quarter.

The increase in profit before taxation was mainly due to higher other operating income from the Shareholders' Fund. However, the General Insurance Division recorded a lower profit due mainly to increase in net claims incurred.

For the current financial quarter under review, consistent with the prior years' practice, no profit was transferred from the Life Insurance Fund to the Shareholders' Fund as the transfer of life business profit is only done at the financial year end.

22. Review of Performance

For the six (6) months ended 30 June 2007, the total operating revenue of the Group increased by 7.2% to RM1,106.3 million (2006: RM1,032.0 million). The Group recorded a higher profit before taxation of RM10.5 million compared to a profit before taxation of RM1.7 million in previous financial year's corresponding period

In the preceding financial year's corresponding period, Shareholders' fund recorded a loss of RM8.7 million. The loss was mainly due to temporary fair value loss of RM6.7 million on quoted equity investments in Sri Lanka by the non-insurance subsidiaries, following the application of Financial Reporting Standard ("FRS") 139 - Financial Instruments: Recognition and Measurement. These investments were subsequently disposed in October 2006 with some gross capital gain.

The General Insurance Division registered an increase of 6.6% in terms of total gross premium to RM232.7 million (2006: RM218.3 million). The General Insurance Division recorded a lower underwriting contribution of RM23.7 million (2006: RM50.1 million) due to increase in claims ratio to 76.5% from 60.4% in the previous financial year's corresponding period, mainly from motor and fire businesses. The higher claims incurred by motor business was caused by increased theft rates and third party bodily injured claims, whilst the flood loss in Southern region of Malaysia has contributed to the increase in claims for fire business.

The Life Insurance Division's gross premium increased by 11.5% to RM731.6 million (2006: RM656.3 million), mainly from higher sale of Fixed Dividend Endowment plans, majority of which from banassurance business.

For the current financial quarter under review, the Life Insurance Division recorded a net surplus before changes in policy reserve of RM325.4million (2006: RM280.1 million). However, consistent with the prior years' practice, no profit was transferred from the Life Insurance Fund to the Shareholders' Fund as the transfer of life business profit is only done at the financial year-end. As at 30 June 2007, the cumulative unallocated surplus carried forward in the Life Insurance Fund amounted to RM612.2 million, an increase of 9.3% from RM560.3 million as at 31 December 2006.

23. Prospects

The Directors expect the Group's performance to remain satisfactory for the current financial year in tandem with the insurance industry and the Malaysian economy.

24. Profit Forecast

This note is not applicable.

25. Dividends

The Board of Directors does not recommend the payment of any interim dividend for the current financial period.

26. Earnings Per Share

	<u>3 months ended</u>		<u>6 months ended</u>	
	<u>30.06.2007</u>	<u>30.06.2006</u>	<u>30.06.2007</u>	<u>30.06.2006</u>
<u>Attributable to the Equity Holders of the Company:</u>				
Profit/(loss) for the financial period (RM'000)	6,828	(7,398)	7,168	(646)
Weighted average number of ordinary shares in issue ('000)	304,354	152,177	304,354	152,177
Basic earnings/(loss) per share (sen)	2.36	(2.27)*	2.43	(0.13)*

* The comparative EPS of previous corresponding period has been amended by an adjustment factor of bonus issue of one (1) Bonus Share for every one (1) existing ordinary share.

By Order of the Board
Lily Yin Kam May
Yeo Took Keat
Company Secretaries

KUALA LUMPUR
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