

MAA HOLDINGS BERHAD

NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 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, except those related to Family Takaful and General Takaful businesses, which only commenced on 1 July 2007.

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.

9 months ended 30 September 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	2,344,447	(853,148)	-	1,491,299
Operating revenue from non- Insurance subsidiaries	-	39,256	-	39,256
Other operating income/(expenses)– net	29,329	(33,373)	-	(4,044)
Management expenses	(35,576)	(5,883)	-	(41,459)
Taxation	(2,442)	-	253	(2,189)
<u>CONDENSED GENERAL INSURANCE REVENUE ACCOUNT</u>				
Management expenses	(63,528)	-	(903)	(64,431)
<u>CONDENSED LIFE INSURANCE REVENUE ACCOUNT</u>				
Management expenses	(74,340)	-	(3,820)	(78,160)
Taxation	(14,167)	-	306	(13,861)
Exchange reserves from Investment-linked fund	-	(496)	-	(496)
Life policyholders' fund at beginning of financial period	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.

On 21 August 2007, the Company made a principal repayment amounted to RM30 million for its last tranche of 6-year RM120 million structured serial bonds issued in August 2001. With this, the RM120 million structured-serial bonds have been fully redeemed.

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

On 10 August 2007, the Company paid a first and final tax exempt dividend of 2 sen per share, totaling RM6.087 million in respect of the financial year ended 31 December 2006.

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, Takaful business, 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 for the current financial period under review.

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

	<u>Life insurance</u>		<u>General</u>	<u>Unit trust</u>	<u>Shareholders'</u>	<u>Eliminations</u>	<u>Group</u>
	<u>Investment-</u>	<u>Non-</u>	<u>insurance</u>	<u>fund</u>	<u>fund and other</u>		
	<u>linked fund</u>	<u>investment-</u>	<u>fund</u>	<u>management</u>	<u>operations</u>		
	RM'000	linked fund	RM'000	RM'000	RM'000	RM'000	RM'000
		RM'000					
<u>9 months ended 30.09.2007</u>							
<u>Operating Revenue</u>							
External revenue	201,523	992,026	348,147	33,465	32,855	-	1,608,016
Intersegment sales	-	2,389	262	-	13,832	(16,483)	-
Total operating revenue	201,523	994,415	348,409	33,465	46,687	(16,483)	1,608,016
<u>Results</u>							
Segment results	70,007	(22,617)	10,500	3,270	(3,213)	2,961	60,908
Transfer to Life reserve	(70,007)	22,617	-	-	-	-	(47,390)
Profit/(loss) from operations	-	-	10,500	3,270	(3,213)	2,961	13,518
<u>9 months ended 30.09.2006</u>							
<u>Operating Revenue</u>							
External revenue	127,190	984,105	342,320	15,899	21,785	-	1,491,299
Intersegment sales	-	2,257	82	-	13,733	(16,072)	-
Total operating revenue	127,190	986,362	342,402	15,899	35,518	(16,072)	1,491,299
<u>Results</u>							
Segment results	25,273	(73,150)	11,236	1,304	1,501	(992)	(34,828)
Transfer to Life reserve	(25,273)	73,150	-	-	-	-	47,877
Profit/(loss) from operations	-	-	11,236	1,304	1,501	(992)	13,049

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

- (a) 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.

- (b) Subsequent to the Shareholders' Deed dated 22 September 2006 entered into between Consortia Group Holdings Pty Limited ("CGH") and Columbus Capital Singapore Pte Ltd ("CCS"), a wholly-owned subsidiary company of MAA International Investments Ltd which in turn a wholly-owned subsidiary of the Company, pertaining to the subscription of Preference Shares in Columbus Capital Pty Limited ("CCAU"), where both parties have agreed to use their respective best endeavors to identify third party investors who are willing to invest a further 5 million Preference Shares at an issue price of AUD1.00 per share, representing 12.5% of the enlarged equity interest in CCAU, whereby the total cash consideration shall be paid on or before 300 calendar days after the Closing Date as stipulated by the Shareholders' Deed, on 12 September 2007, the Company announced that CCS and CGH have mutually agreed to vary the said period of "300 calendar days after the Closing Date" to "on or before 28 April 2008, subject to monthly review by the Board".

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>30.09.2007</u>	<u>As at</u> <u>31.12.2006</u>
	RM'000	RM'000
Performance bonds and guarantees	<u>115,593</u>	<u>169,375</u>

(b) During the financial year ended 31 December 2005 ("FY 2005"), Meridian Asset Management Sdn Bhd ("MAMS") had commenced a legal proceeding against one of its custodian of its fund under management to recover, inter alia, the loss of investment moneys of its clients amounting to RM27.6 million placed with the custodian, namely Malaysian Assurance Alliance Berhad ("MAA") and Kumpulan Wang Persaraan (Diperbadankan) ("KWAP"). The custodian had entered its defence to the case. The parties have further filed various applications to the Court to dispose of the case, including but not limited to, the application for further and better particulars and the application for interrogatories filed by MAMS; and the application under Order 14A and the application for stay of proceedings filed by the custodian. The Court has fixed 17 January 2008 for decision of the application under Order 14A filed by the custodian.

MAMS had also during the FY 2005 commenced legal proceedings against its former employee and other parties related to the former employee to recover, inter alia, the loss of investment moneys of its clients amounting to RM27.6 million together with interest and general damages. The former employee and other parties related to the former employee have entered their defence to the case and the Court has fixed 11 December 2007 for case management. Meanwhile, MAMS has obtained an injunction against its former employee but its former employee has obtained a stay of execution of the injunction on paragraph (f) that required the former employee and the parties related to the former employee to provide a detailed account of, to whom and where the sum of RM27.6 million had been subsequently disbursed to. MAMS is appealing against the stay of execution of the injunction on paragraph (f) and the Court has fixed 15 January 2008 for hearing of the appeal.

MAA has also commenced legal proceedings against the custodian for negligence to recover, inter alia, its loss during the financial year ended 31 December 2006. 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 Court has allowed the terms of the summons for directions of the third party proceedings and MAMS has filed its defence and counter claim against the custodian. The case has been fixed on 17 January 2008 for mention of case management.

In November 2007, MAMS has received a Writ of Summons and Statement of Claim from KWAP to recover, inter alia, its loss of investment moneys of RM7,254,050.42 together with interest. MAMS has entered appearance to the case and is instructing its solicitors to file a defence to the case.

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 its former employee and other parties related to the former employee. Its solicitors are also of the opinion that MAMS has a good defence to the case taken by KWAP against MAMS and even if MAMS is found to be liable for the loss, it would be able to recover the same from the custodian and/or its former employee and other parties related to its former employee. 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 September 2007 is as follows:

Approved and contracted for	RM'000 <u>48,479</u>
Analysed as follows: -	
- property, plant and equipment	3,891
- investment properties	<u>44,588</u>

14. Taxation

	<u>3 months ended</u>		<u>9 months ended</u>	
	<u>30.09.2007</u>	<u>30.09.2006</u>	<u>30.09.2007</u>	<u>30.09.2006</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current tax</u>				
Current financial period	953	331	3,209	499
Under/(over) accrual in prior financial year	(3)	268	-	268
	<u>950</u>	<u>599</u>	<u>3,209</u>	<u>767</u>
<u>Deferred tax</u>				
Current financial period	(3,680)	(714)	(2,615)	1,422
	<u>(2,730)</u>	<u>(115)</u>	<u>594</u>	<u>2,189</u>

For the current financial period under review, the effective tax rate is higher than the statutory tax rate due mainly to certain expenses 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 subsidiary for the current financial quarter and period amounted to RM2.2 million and RM2.3 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

The Company announced on 21 September 2007 that Bank Negara Malaysia (“BNM”) had via its letter dated 21 September 2007 stated that it has no objection for the Company to commence preliminary negotiations with four (4) short-listed potential partners to explore the possibility of any one or more of the potential partners acquiring a stake in its wholly owned subsidiary, Malaysian Assurance Alliance Berhad (“MAA”):

- (i) Alliance Insurance Management Asia Pacific Pte.Ltd
- (ii) AXA Asia Pacific Holdings Limited and AFFIN Holdings Berhad
- (iii) Kurnia Asia Berhad
- (iv) Nippon Life Insurance Company

On 24 October 2007, the Company announced that BNM granted its approval to the Company to commence preliminary negotiations with another potential partner namely AmAssurance Berhad, a subsidiary of AMMB Holdings Berhad acquiring a stake in MAA.

The Company has subsequently on 5 November 2007 announced that Kurnia Asia Berhad has withdrawn from pursuing further discussions relating to the possible acquisition of MAA’s general insurance business.

Further announcement has been made on 14 November 2007 that Nippon Life Insurance Company has via its letter dated 13 November 2007 informed the Company of its decision to withdraw from pursuing further discussions relating to their potential equity participation in MAA.

Other than as stated above, as at the date of this report, there is no corporate proposal that has been announced but not completed as at 22 November 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>30.09.2007</u> RM’000	<u>As at</u> <u>31.12.2006</u> RM’000 (Audited)
<u>Short term</u>		
Bonds – unsecured	-	30,000
Term loan – secured	30,000	39,935
Bank overdraft – unsecured	357	26,002
	<u>30,357</u>	<u>95,937</u>
<u>Long term</u>		
Term loan – unsecured	-	30,000
Medium terms notes – secured	200,000	-
	<u>200,000</u>	<u>30,000</u>
Total Group Borrowings	<u>230,357</u>	<u>125,937</u>

19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 22 November 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 22 November 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 loss before taxation of RM9.4 million as compared to a profit before taxation of RM9.1 million in the preceding financial quarter.

The loss was mainly due to lower other operating income from the Shareholders' Fund, resulted from higher provision made for non-performing loans by non-insurance subsidiary engaged in credit business.

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 nine (9) months ended 30 September 2007, the total operating revenue of the Group increased by 7.8 % to RM1,608.0 million (2006: RM1,491.3 million). The Group recorded a lower profit before taxation of RM1.1 million compared to a profit before taxation of RM3.2 million in previous financial year's corresponding period

The lower profit before taxation for the current financial period under review was mainly due to increase in loss recorded by Shareholders' Fund, resulted from higher provision made for non-performing loans by non-insurance subsidiary engaged in credit business, increase in management expenses, coupled with higher finance costs arising from issuance of RM200 million Medium Term Notes.

The General Insurance Division registered an increase of 3.2% in terms of total gross premium to RM338.8 million (2006: RM328.2 million). The General Insurance Division recorded a lower underwriting contribution of RM37.0 million (2006: RM66.9 million) due to increase in claims ratio to 75.8% from 62.7% 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.

Despite the higher registered claims, the General Insurance Division has reduced its management expenses by 19.7% to RM51.7 million from RM64.4 million in the previous financial year's corresponding period, from the aggressive cost control exercise undertaken. At the same time, the General Insurance Division has also recorded a higher gain from disposal of quoted investments of RM10.8 million (2006: RM11.9 million loss) arising from the better performance of the stock market. With these, the General Insurance Division has continued to record a profit before taxation of RM16.3 million in both the current financial period and previous financial year's corresponding period.

The Life Insurance Division's gross premium increased by 10.6% to RM1,036.0 million (2006: RM936.7 million), mainly from higher sale of Fixed Dividend Endowment plans ("FDE"), majority of which from banassurance business. The Life Insurance Division registered an underwriting deficit of RM7.4 million (2006: underwriting contribution of RM102.8 million) due to increase in claim ratio to 84.1% from 69.5% in the previous financial year's corresponding period. The higher claim ratio was mainly due to the increase in maturities of FDE, death claims and medical claims recorded by the local insurance company.

For the current financial period under review, the Life Insurance Division recorded a higher net surplus before changes in policy reserve of RM294.0 million (2006: RM282.9 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 September 2007, the cumulative unallocated surplus carried forward in the Life Insurance Fund amounted to RM607.7 million, an increase of 8.5% 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>9 months ended</u>	
	<u>30.09.2007</u>	<u>30.09.2006</u>	<u>30.09.2007</u>	<u>30.09.2006</u>
<u>Attributable to the Equity Holders of the Company:</u>				
Profit/(loss) for the financial period (RM'000)	(6,948)	2,000	452	1,617
Number of ordinary shares in issue ('000)	304,354	304,354	304,354	304,354
Basic earnings/(loss) per share (sen)	<u>(2.28)</u>	<u>0.66</u>	<u>0.15</u>	<u>0.53</u>

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

KUALA LUMPUR
DATE: 29 November 2007
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