

MAA HOLDINGS BERHAD

NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 31 MARCH 2008

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 2007.

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

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, 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.

	Life insurance				Shareholders'		
	<u>Investment</u>	<u>Non-</u>	<u>General</u>	<u>Unit trust</u>	<u>fund and</u>	<u>Eliminations</u>	<u>Group</u>
	<u>-linked</u>	<u>investment-</u>	<u>insurance</u>	<u>fund</u>	<u>other</u>		
	<u>fund</u>	<u>linked fund</u>	<u>fund</u>	<u>management</u>	<u>operations</u>		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>3 months ended 31.03.2008</u>							
<u>Operating Revenue</u>							
External revenue	76,180	308,192	98,925	9,179	16,790	-	509,266
Intersegment sales	-	831	93	-	4,381	(5,305)	-
Total operating revenue	<u>76,180</u>	<u>309,023</u>	<u>99,018</u>	<u>9,179</u>	<u>21,171</u>	<u>(5,305)</u>	<u>509,266</u>
<u>Results</u>							
Segment results	(43,657)	(89,430)	(16,851)	763	(23,247)	(130)	(172,552)
Transfer from Life reserve	43,657	89,430	-	-	-	-	133,087
Loss from operations	<u>-</u>	<u>-</u>	<u>(16,851)</u>	<u>763</u>	<u>(23,247)</u>	<u>(130)</u>	<u>(39,465)</u>
<u>3 months ended 31.03.2007</u>							
<u>Operating Revenue</u>							
External revenue	47,312	354,517	111,959	10,154	13,205	-	537,147
Intersegment sales	-	597	8	-	1,405	(2,010)	-
Total operating revenue	<u>47,312</u>	<u>355,114</u>	<u>111,967</u>	<u>10,154</u>	<u>14,610</u>	<u>(2,010)</u>	<u>537,147</u>
<u>Results</u>							
Segment results	32,322	24,690	6,491	331	(2,180)	419	62,073
Transfer to Life reserve	(32,322)	(24,690)	-	-	-	-	(57,012)
Profit from operations	<u>-</u>	<u>-</u>	<u>6,491</u>	<u>331</u>	<u>(2,180)</u>	<u>419</u>	<u>5,061</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 2007. 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

There were no changes in the composition of the Group during the current financial period.

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>31.03.2008</u>	<u>As at</u> <u>31.12.2007</u>
	RM'000	RM'000
Performance bonds and guarantees	<u>24,637</u>	<u>150,494</u>

- (b) During the financial year ended 31 December 2005 ("FY 2005"), Meridian Asset Management Sdn Bhd ("MAM") a subsidiary company had commenced legal proceeding against one of its custodian of its fund under management to recover, inter alia, the loss of investment moneys of its clients, Malaysian Assurance Alliance Berhad ("MAA") and Kumpulan Wang Amanah Pencen ("KWAP") of RM19.6 million and RM7.3 million respectively placed with the custodian ("Custodian"). The Custodian had filed an Application under Order 14A of the Rules of High Court ("Order 14A Application") to dismiss the case but the Order 14A Application was dismissed by the Court. The Custodian is appealing against the decision. The court has fixed 26 June 2008 for Pre Trial Case Management and hearing of the Custodian's Application for Stay of Proceedings.

MAM has also during FY 2005 commenced legal proceedings against its former employee and other related parties to the former employee to recover, inter alia, the loss of investment moneys of its clients, MAA and KWAP together with interest and general damages. The case has been fixed for Pre Trial Case Management on 28 May 2008.

MAA has during the financial year ended 31 December 2006 commenced legal proceeding against the Custodian for negligence to recover, inter alia, its loss of investment moneys amounting to RM19.6 million. The Custodian has served a Third Party Notice to bring MAM as a third party to the legal proceedings. The case has been fixed for Pre Trial Case Management on 26 June 2008.

In November 2007, KWAP had commenced a legal proceeding against MAM to recover, inter alia, its loss of investment moneys amounting to RM7.3 million together with interest. KWAP had since filed an Application under Order 14 of the Rules of the High

Court ("Order 14 Application"). The Order 14 Application has been fixed for hearing on 17 June 2008.

The directors of MAA Holdings Berhad, supported by legal advice to MAM, are of the opinion that MAM has a good chance in both their cases against the Custodian and the former employee and other parties related to the former employee. Its solicitors are also of the opinion that MAM has a good defence to the case taken by KWAP against MAM and even if MAM 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 the former employee. However, for prudence purposes, MAA has made full allowance of RM19.6 million relating to its investments in the financial 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 31 March 2008 is as follows:

Approved and contracted for	RM'000 <u>28,059</u>
Analysed as follows: -	
- property, plant and equipment	3,508
- investment properties	<u>24,551</u>

14. Taxation

	<u>3 months ended</u>		<u>3 months ended</u>	
	<u>31.03.2008</u>	<u>31.03.2007</u>	<u>31.03.2008</u>	<u>31.03.2007</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current tax</u>				
Current financial period	1,062	1,330	1,062	1,330
<u>Deferred tax</u>				
Current financial period	<u>(10,988)</u>	<u>(267)</u>	<u>(10,988)</u>	<u>(267)</u>
	<u>(9,926)</u>	<u>1,063</u>	<u>(9,926)</u>	<u>1,063</u>

The tax credit for the current financial period under review was due mainly to recognition of deferred tax effect of a fair value loss arising from an interest rate swap transaction and reversal of temporary differences arising from provision for diminution in value of quoted investments.

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

The loss from sale of unquoted investments and investment properties by the insurance subsidiaries for the current financial period amounted to RM0.5 million.

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 has granted its approval to the Company to commence preliminary negotiation with another potential partner namely AmAssurance Berhad, a subsidiary of AMMB Holdings Berhad to 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.

On 16 May 2008, the Company announced that AXA Asia Pacific Holdings Limited and AFFIN Holdings Berhad have via their letter, which was received on 16 May 2008, informed the Company of their 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 24 May 2008 (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>31.03.2008</u> RM’000	<u>As at</u> <u>31.12.2007</u> RM’000 (Audited)
<u>Short term</u>		
Term loan – secured	30,000	30,000
Bank overdraft – unsecured	11,253	11,159
	<u>41,253</u>	<u>41,159</u>
<u>Long term</u>		
Medium terms notes – secured	200,000	200,000
	<u>200,000</u>	<u>200,000</u>
Total Group Borrowings	<u>241,253</u>	<u>241,159</u>

19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 24 May 2008 (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 24 May 2008 (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

During the current financial quarter under review, the Group registered a loss before taxation of RM44.1 million as compared to a loss before taxation of RM85.6 million* in the preceding financial quarter.

The higher loss in the preceding financial quarter was mainly due to loss before taxation of RM42.8 million* recorded by Shareholders' Fund and deficit transferred from the Life Insurance Fund of RM42.8 million*, which was however offset by a profit before tax of RM11.6 million* as recorded by the General Insurance Division.

In the preceding financial quarter, the loss in the Shareholders' Fund was mainly due to additional allowance made for non-performing loans by non-insurance subsidiary engaged in credit business, coupled with fair value loss arising from an interest rate swap transaction. While the loss in the Life Insurance Division was mainly due to additional provision made for non-performing loans and additional allowance for diminution in value of investment in unquoted corporate debt security.

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

* follows the audited results for the financial year ended 31 December 2007.

22. Review of Performance

For the three (3) months ended 31 March 2008, the total operating revenue of the Group decreased by 5.2% to RM509.3 million (2006: RM537.1 million). The Group recorded a loss before taxation of RM44.1 million compared to a profit before taxation of RM1.4 million in previous financial year's corresponding period.

The loss for the current financial quarter under review was mainly due to loss before taxation of RM24.3 million (2006: loss before taxation of RM2.2 million) and RM15.1 million (2006: profit before taxation of RM7.3 million) as recorded by the Shareholders' Fund and General Insurance Division respectively.

The loss in Shareholders' Fund was due mainly to additional fair value loss of RM26.0 million arising from an interest rate swap transaction following the continuing volatility in the US market interest rates in the aftermath of the subprime mortgage loan crisis.

The General Insurance Division registered a decrease of 13.2% in terms of total gross premium to RM94.8 million (2006: RM109.2 million). The local General Insurance Division's motor vehicle premium has decreased by 21.8% due to intensive competitions in the industry especially for comprehensive private car business segment. Notwithstanding this, the General Insurance Division's underwriting

contribution increased marginally by 3.0% to RM14.1 million (2006: RM13.7 million) due mainly to improvement in net claims ratio to 73.5% from 74.1% in the previous financial year's corresponding period.

Nevertheless, the General Insurance Division has recorded a loss before taxation of RM15.1 million for the financial period under review due mainly to provision made for diminution in value of quoted investments amounted to RM14.3 million (2006: write back of provision for diminution in value of RM4.9 million) by the local insurance subsidiary company as resulted from deterioration in the KLCI.

The Life Insurance Division's gross premium decreased by 6.8% to RM329.2 million (2006: RM353.1 million), mainly from decrease in sale of Fixed Dividend Endowment plans ("FDE"), as a result of actions taken in 2007 to limit the exposure to this type of business in terms of risk of asset and liability mismatching and low profit margin. The Life Insurance Division registered an underwriting deficit of RM13.6 million (2006: underwriting contribution of RM53.1 million) due to increase in maturities of FDE, surrender of annuity policies and higher cash bonus payout as recorded by the local insurance subsidiary company.

For the current financial period under review, the Life Insurance Division recorded a net deficit before changes in policy reserve of RM142.1 million (2006: net surplus of RM198.2 million). The deficit was mainly due to provision made for diminution in value of quoted investments amounted to RM155.0 million (2006: write back of provision for diminution in value of RM54.0 million) by the Life Insurance Division of the local insurance subsidiary company as resulted from deterioration in the KLCI. However, consistent with the prior years' practice, no profit/loss was transferred from/to the Life Insurance Fund to the Shareholders' Fund as such the transfer is only done at the financial year-end.

As at 31 March 2008, the cumulative unallocated surplus carried forward in the Life Insurance Fund amounted to RM418.7 million.

23. Prospects

The Group recognises the increasing market competitions it is facing, nevertheless, the Group will continue its efforts to implement various management action plans and strategies to re-strategise its business model and control costs.

Barring any unforeseen circumstances, the Directors expect the Group's performance to improve for the current financial year.

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>3 months ended</u>	
	<u>31.03.2008</u>	<u>31.03.2007</u>	<u>31.03.2008</u>	<u>31.03.2007</u>
<u>Attributable to the Equity Holders of the Company:</u>				
(Loss)/profit for the financial period (RM'000)	(33,913)	213	(33,913)	213
Weighted average number of ordinary shares in issue ('000)	304,354	304,354	304,354	304,354
Basic (loss)/earnings per share (sen)	(11.14)	0.07	(11.14)	0.07

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

KUALA LUMPUR
DATE: 30 May 2008
File: MAAH – 1QtrNotes-310308