

MAA HOLDINGS BERHAD

NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 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>9 months ended 30.09.2008</u>							
<u>Operating Revenue</u>							
External revenue	172,813	911,093	350,979	21,856	73,820	-	1,530,561
Intersegment sales	-	2,397	348	-	13,329	(16,074)	-
Total operating revenue	<u>172,813</u>	<u>913,490</u>	<u>351,327</u>	<u>21,856</u>	<u>87,149</u>	<u>(16,074)</u>	<u>1,530,561</u>
<u>Results</u>							
Segment results	(102,021)	(91,036)	(19,131)	1,780	(25,627)	3,437	(232,598)
Transfer from Life reserve	102,021	91,036	-	-	-	-	193,057
Profit/(loss) from operations	<u>-</u>	<u>-</u>	<u>(19,131)</u>	<u>1,780</u>	<u>(25,627)</u>	<u>3,437</u>	<u>(39,541)</u>
<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	<u>201,523</u>	<u>994,415</u>	<u>348,409</u>	<u>33,465</u>	<u>46,687</u>	<u>(16,483)</u>	<u>1,608,016</u>
<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	<u>-</u>	<u>-</u>	<u>10,500</u>	<u>3,270</u>	<u>(3,213)</u>	<u>2,961</u>	<u>13,518</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

MAA International Assurance Ltd ("MAAIA"), a wholly-owned subsidiary company of MAA Corporation Sdn Bhd which is in turn a wholly-owned subsidiary of the Company has on 5 September 2008 disposed a total of 6,446,918 ordinary shares of Rp1,000 each, representing 34% equity interest in PT MAA General Assurance ("PT MAAG") to Mr. Ng Feby Antonious ("Feby"), a minority shareholder of PT MAAG, for a total cash consideration of RM252,188 pursuant to an Option granted by MAAIA to Feby via the Shareholders Agreement dated 6 September 2001.

Upon completion of the disposal, MAAIA's equity interest in PT MAAG reduced from 94% to 60%. The Group recorded a loss of RM1.97 million on the disposal.

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>30.09.2008</u>	<u>As at</u> <u>31.12.2007</u>
	RM'000	RM'000
Performance bonds and guarantees	<u>96,724</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 has filed an appeal against the decision. On 26 June 2008, the Custodian Application for Stay of Proceedings was dismissed with cost and the Court had fixed 16 September 2008 for Pre Trial Case Management. On 16 September 2008 the Court directed the matter to be tried together with MAA's case. The court has further fixed 12 December 2008 for case management.

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 which has been fixed for Pre Trial Case Management on 28 August 2008 was adjourned to 8 January 2009 due to unavailability of the registrar.

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 16 September 2008. On 16 September 2008 the Court directed the matter to be tried together with MAM's case. The court has further fixed 12 December 2008 for case management.

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 filed an Application under Order 14 of the Rules of the High Court ("Order 14 Application"). The Order 14 Application was dismissed by court on 23 September 2008. KWAP filed for Pre Trial Case Management and the unsealed notice of the Pre Trial Case Management was served on MAM on 29 September 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 30 September 2008 is as follows:

Approved and contracted for	RM'000 <u>26,563</u>
Analysed as follows: -	
- property, plant and equipment	3,495
- investment properties	<u>23,068</u>

14. Taxation

	<u>3 months ended</u>		<u>9 months ended</u>	
	<u>30.09.2008</u>	<u>30.09.2007</u>	<u>30.09.2008</u>	<u>30.09.2007</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current tax</u>				
Current financial period	1,583	950	2,781	3,209
<u>Deferred tax</u>				
Current financial period	(4,093)	(3,680)	(9,652)	(2,615)
	<u>(2,510)</u>	<u>(2,730)</u>	<u>(6,871)</u>	<u>594</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 temporary differences from provision for diminution in value of quoted investments.

15. Profit/(loss) 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 RM4.8 million and RM7.7 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 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.

On 26 June 2008, the Company announced that Alliance Insurance Management Asia Pacific Pte Ltd have via its letter dated 25 June 2008 informed the Company of its decision to withdraw from pursuing further discussions relating to their potential equity participation in MAA.

Following the above, the Company has on 10 November 2008 entered into a non-binding memorandum of understanding (“MOU”) between MAA and AMG Insurance Berhad (“AMG”) to formalize discussions on the disposal of the General Insurance Business of MAA to AMG at a headline price of RM274.8 million (subject to adjustments), representing a price-to-book value of approximately 2.6 times and the acquisition of a 4.9% stake in MAA Takaful Berhad by AMG for a total consideration of RM16.2 million, equivalent to RM3.30 per share (collectively “Proposed Transactions”).

The Proposed Transactions is subject to the approvals being obtained from the followings:

- (i) BNM for the scheme of transfer under the business transfer agreement;
- (ii) Minister of Finance, based on the recommendation of BNM, pursuant to the Insurance Act, 1996;
- (iii) Foreign Investment Committee (if required);
- (iv) Securities Commission (if required);
- (v) Malaysian High Court for the confirmation of scheme of transfer;
- (vi) Shareholders of the Company

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 21 November 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>30.09.2008</u> RM'000	<u>As at</u> <u>31.12.2007</u> RM'000 (Audited)
<u>Short term</u>		
Term loan – secured	5,000	30,000
Bank overdraft – unsecured	11,674	11,159
	<u>16,674</u>	<u>41,159</u>
<u>Long term</u>		
Term loan – secured	20,000	-
Medium terms notes – secured	200,000	200,000
	<u>220,000</u>	<u>200,000</u>
Total Group Borrowings	<u>236,674</u>	<u>241,159</u>

19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 21 November 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

In September 2007, Comsa Farms Berhad ("Plaintiff") brought a civil suit against MAA alleging that MAA had breached the facility agreement and the supplementary agreement ("Facility Agreement") by refusing to release the second, third and fourth tranches of the loan facility of RM100 million granted by MAA to the Plaintiff. The Plaintiff claimed for RM150 million in damages, rescission of the Facility Agreement, or a declaration on the breach of the Facility Agreement, an order to compel MAA to lodge a Discharge on the Charge on the properties charged to MAA as security for the loan and an injunction restraining MAA from dealing with the charged properties. MAA had since filed a Defence to the case.

The Plaintiff obtained an Order for an Ex-Parte Summons in Chambers ("SIC") to injunct MAA from dealing with the charged properties. The inter-parte injunction has been fixed for decision on 13 November 2008.

The Plaintiff also obtained an Order through an Ex-Parte Originating Summons ("OS") to injunct the Defendant from filing any petition against the Plaintiff pursuant to the Section 218 of the Companies Act 1965 and to proceed with any winding up petition. The inter-parte injunction has been fixed for decision on 13 November 2008.

MAA has since filed a Defence to the case on 2 April 2008. The directors of the Company, supported by legal advice to MAA, are of the opinion that MAA has a good Defence to the Plaintiff's claim. MAA did not make any provision for this claim as the loss suffered by the Plaintiff, if any was not substantiated.

Other than as stated above, as at the date of this report, there were no other material litigations as at 21 November 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

For the current financial quarter under review, the Group registered a loss before taxation of RM12.4 million as compared to a profit before taxation of RM9.9 million in the preceding financial quarter.

The loss in the current financial quarter was mainly due to higher other operating expenses recorded by the Shareholders' Fund, resulted from additional fair value loss of RM17.8 million on the interest rate swap transaction.

Following the adoption of FRS 139: Financial Instruments – Recognition and Measurement, it is required to calculate Mark-To-Market value of the interest rate swap, with the resulting fair value gain or loss arising thereon to be accounted for in the income statement at the end of each reporting month. The fair value loss in the current financial quarter was mainly due to the intense volatility in the US market interest rates, resulted from the subprime mortgage loan crisis.

For the current financial period 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.

22. Review of Performance

For the nine (9) months ended 30 September 2008, the total operating revenue of the Group decreased by 4.8% to RM1,530.6 million (2007: RM1,608.0 million). The Group recorded a loss before taxation of RM46.6 million compared to a profit before taxation of RM1.1 million in previous financial year's corresponding period.

The loss for the current financial period under review was primarily attributable to the loss before taxation of RM11.9 million (2007: profit before taxation of RM16.3 million) as recorded by the General Insurance Division, higher finance costs of RM14.6 million (2007: RM11.3 million) and additional fair value loss of RM17.6 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 2.6% in terms of total gross premium to RM329.9 million (2007: RM338.8 million). The local General Insurance Division's gross premium decreased by 7.3% due mainly to motor vehicle business which experienced selective underwriting strategy, coupled with impact of lower new and used car prices, as well as keen competition in the industry.

Despite the improvement in General Insurance Division's net claims ratio to 73.6% from 76.9% in the previous financial year's corresponding period, the Division recorded higher provision for diminution in value of quoted investments which amounted to RM25.8 million as resulted from the deterioration in the KLCI during the current financial period, compared to a write back of provision for diminution in value of quoted investments of RM9.5 million arising from the better performance of the stock market in the previous financial year's corresponding period.

The Life Insurance Division's gross premium decreased by 13.1% to RM900.7 million (2007: RM1,036.0 million), mainly from decrease in sale of Fixed Dividend Endowment plans ("FDE"), as a result of continuing actions taken since 2007 to limit the exposure to this type of business in terms of risk of asset and liability mismatching and low profit margin.

As at 30 September 2008, the cumulative unallocated surplus carried forward in the Life Insurance Fund amounted to RM358.8 million. 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.

23. Prospects

The Group recognises the increasing market competition it is facing, nevertheless, the Group will continue its efforts to streamline its activities to focus on personal protection and savings.

In light of the continuing global financial crisis and economic uncertainty, the Group's performance for the current financial year remains uncertain.

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>30.09.2008</u>	<u>30.09.2007</u>	<u>30.09.2008</u>	<u>30.09.2007</u>
<u>Attributable to the Equity Holders of the Company:</u>				
Profit/(loss) for the financial quarter/period (RM'000)	(9,297)	(6,948)	(38,490)	452
Weighted average number of ordinary shares in issue ('000)	304,354	304,354	304,354	304,354
Basic earnings /(loss) per share (sen)	(3.05)	(2.28)	(12.65)	0.15

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

DATE: 28 November 2008
File: MAAH – 3QtrNotes-300908