

# MAA HOLDINGS BERHAD

## NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 30 SEPTEMBER 2009

### 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 2008.

Bank Negara Malaysia has issued detailed guidelines under the Risk Based Capital ("RBC") Framework for insurers which became effective for the annual period beginning on or after 1 January 2009. Malaysian Assurance Alliance Berhad ("MAA"), a wholly owned insurance subsidiary company of the Company, has adopted and applied the new valuation basis for re-measurement of assets and insurance liabilities as specified in RBC Framework for the annual period beginning on 1 January 2009.

The RBC Framework does not have significant impact on the financial statements of the Group since the Group has early adopted Financial Reporting Standard 139 - Financial Instruments: Recognition and Measurement for the re-measurement at fair value of financial assets and financial liabilities.

Certain comparative figures of the Group have been reclassified to conform with current financial period's presentation: -

	As previously stated RM'000	Reclassification RM'000	As restated RM'000
<b>Group</b>			
Financial assets			
Investments			
- available-for-sale	75,273	29,748	105,021
Assets classified as held for sale	537,489	(29,748)	507,741

### 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 issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current financial period under review, except RM5 million partial principal repayment of term loan as scheduled by the Company.

## **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.

	Continuing operations					Discontinued operations			Group
	Life insurance		General insurance fund	Unit trust fund management	Shareholders' fund and other operations	General insurance fund	Shareholders' fund and other operations	Eliminations	
Investment-linked fund	Non-investment-linked fund	RM'000							RM'000
<u>9 months ended 30.09.2009</u>									
<u>Operating Revenue</u>									
External revenue	100,830	886,658	61,290	19,210	125,402	345,018	12	-	1,538,420
Intersegment sales	-	2,378	-	-	11,622	342	500	(14,842)	-
Total operating revenue	100,830	889,036	61,290	19,210	137,024	345,360	512	(14,842)	1,538,420
<u>Results</u>									
Segment results	106,763	(303,069)	(8,641)	1,953	27,610	26,934	264	(247)	(148,433)
Transfer (to)/from Life reserve	(106,763)	303,069	-	-	-	-	-	-	196,306
Profit/(loss) from operations	-	-	(8,641)	1,953	27,610	26,934	264	(247)	47,873
<u>9 months ended 30.09.2008</u>									
<u>Operating Revenue</u>									
External revenue	172,813	911,093	50,289	21,856	62,311	300,690	-	-	1,519,052
Intersegment sales	-	2,397	-	-	13,329	348	-	(16,074)	-
Total operating revenue	172,813	913,490	50,289	21,856	75,640	301,038	-	(16,074)	1,519,052
<u>Results</u>									
Segment results	(102,021)	(91,036)	(2,698)	1,780	(25,289)	(13,076)	(4)	(254)	(232,598)
Transfer from Life reserve	102,021	91,036	-	-	-	-	-	-	193,057
Profit/(loss) from operations	-	-	(2,698)	1,780	(25,289)	(13,076)	(4)	(254)	(39,541)

## 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 2008. 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) On 13 January 2009, the Board of Directors of Company announced that its wholly owned subsidiary, MAA Corporation Sdn Bhd ("MAA Corp") had on the same day disposed its entire equity in a dormant subsidiary, Maaple Eldercare Sdn Bhd, for a cash consideration of RM10, being the paid up capital of the company.
- (b) On 24 August 2009, MAA Corp disposed 100% equity interest in a subsidiary company Valiant Properties Sdn Bhd ("VPSB") for a cash consideration of RM182,292 (based on value of net assets of VPSB as at 31 March 2009) arrived at on a willing buyer willing seller basis to K.K. Point Sdn Bhd ("KKSBB") via a Sale of Share Agreement entered into on event date, including an amount of RM1,228,805 to be paid by KKSBB to MAA Corp as agreed settlement for the inter-company debt as at 31 March 2009 due by VPSB to MAA Corp.

## 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>30.09.2009</u>	<u>As at</u> <u>31.12.2008</u>
	RM'000	RM'000
Performance bonds and guarantees	<u>110,885</u>	<u>141,641</u>

- (b) During the financial year ended 31 December 2005 ("FY 2005"), Meridian Asset Management Sdn Bhd ("MAM") a subsidiary company of MAA Corp 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, 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's 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. On 23 January 2009, the Court had allowed MAM's application to amend the Statement of Claim to include the damages suffered by MAM but disallowed the amendment to include an associate company of the Custodian as the Second Defendant. The matter is now fixed for Pre Trial Case Management on 15 December 2009 for the parties to comply with the Court's direction.

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 matter is now fixed for mention on 1 December 2009 for filing of parties' documents prior to the trial which is fixed on 18, 19, 20, 21 and 22 January 2010.

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 is now fixed for Pre Trial Case Management on 15 December 2009 for the parties to comply with the Court's direction

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. On 20 July 2009, MAM obtained leave from the Court to file and serve the Third Party Notice to the Custodian. At the Pre Trial Case Management on 10 November 2009, the Court gave directions to the Third Party to enter its Defence and MAM to file and serve all the relevant documents on the Third Party on or before the next Pre Trial Case Management fixed on 14 December 2009.

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 period.

### 13. Capital Commitments

Capital commitments not provided for in the interim financial report as at 30 September 2009 is as follows:

Approved and contracted for	RM'000 <u>20,786</u>
Analysed as follows: -	
- property, plant and equipment	4,368
- investment properties	<u>16,418</u>

## 14. Taxation

### CONTINUING OPERATIONS

	<u>3 months ended</u>		<u>9 months ended</u>	
	<u>30.09.2009</u>	<u>30.09.2008</u>	<u>30.09.2009</u>	<u>30.09.2008</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current tax</u>				
Current financial period	(1,633)	208	(710)	1,406
<u>Deferred tax</u>				
Current financial period	257	(4,284)	57	(3,974)
Tax expense/(income)	<u>(1,376)</u>	<u>(4,076)</u>	<u>(653)</u>	<u>(2,568)</u>

### DISCONTINUED OPERATIONS

	<u>3 months ended</u>		<u>9 months ended</u>	
	<u>30.09.2009</u>	<u>30.09.2008</u>	<u>30.09.2009</u>	<u>30.09.2008</u>
	RM'000	RM'000	RM'000	RM'000
<u>Current tax</u>				
Current financial period	522	1,375	522	1,375
<u>Deferred tax</u>				
Current financial period	1,747	191	5,647	(5,678)
Tax expense/(income)	<u>2,269</u>	<u>1,566</u>	<u>6,169</u>	<u>(4,303)</u>

For the current financial period under review, the effective tax rate is lower than the statutory tax rate due mainly to non recognition of deferred tax liabilities on the reversal of fair value loss of RM37.9 million arising from interest rate swap.

## 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 RM0.6 million and RM4.9 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

On 10 November 2008, the Company announced the entering into a non-binding memorandum of understanding ("MOU") between MAA and AMG Insurance Berhad ("AMG") to formalise discussions on the proposed acquisition by AMG of the General Insurance Business of MAA at a headline price of RM274.8 million (subject to adjustments), and the acquisition of a 4.9% stake in MAA Takaful Berhad ("MAA Takaful") 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) Bank Negara Malaysia ("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 ("SC") (if required);
- (v) Malaysian High Court for the confirmation of scheme of transfer;
- (vi) Shareholders of the Company

On 26 February 2009, the Company announced that both MAA and AMG are currently working towards finalising a business transfer agreement ("BTA") in relation to the proposed disposal of the General Insurance Business of MAA prior to the submission of the said agreement to BNM for approval.

On 24 April 2009, the Company announced that the headline price has been revised to RM254.83 million (subject to adjustments) and an application to BNM seeking its approval for the proposed disposal of General Insurance Business of MAA to AMG ("the Proposed Disposal") has been submitted. The execution of the BTA is subject to BNM's approval which is currently pending. The Company and MAA have also granted AMG an extension of 120 days to the exclusivity period under the MOU.

On 27 April 2009, the Company has submitted an application to the SC on the Proposed Disposal.

On 21 July 2009, the Company announced that the SC has approved the Proposed Disposal via its letter dated 20 July 2009 (which was received on 21 July 2009). However, the Proposed Disposal is still subject to the approval from BNM and Shareholders of the Company.

On 17 November 2009, the Company announced that after further negotiations the headline price has been revised to RM180 million (subject to adjustments). The revised headline price was arrived at after taking into consideration the standalone value of the General Insurance Business without a strategic cooperation arrangement on the takaful business with MAA Takaful. The profit for the financial year ending 31 December 2009 and prior to the completion date of the General Insurance Business will be accrued to MAA.

An application in respect of the revised terms on the Proposed Disposal has been submitted to BNM for approval. The Proposed Disposal is expected to be completed during the 2<sup>nd</sup> Quarter 2010.

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 20 November 2009 (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>30.09.2009</u> RM'000	<u>As at</u> <u>31.12.2008</u> RM'000 (Audited)
<u>Short term</u>		
Term loan – unsecured	15,000	10,000
Medium terms notes – secured	30,000	-
Bank overdrafts – unsecured	11,191	11,382
	<u>56,191</u>	<u>21,382</u>
<u>Long term</u>		
Term loan – unsecured	-	10,000
Medium terms notes – secured	170,000	200,000
	<u>170,000</u>	<u>210,000</u>
 Total Group Borrowings	 <u>226,191</u>	 <u>231,382</u>

## 19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 20 November 2009 (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 20 November 2009 (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 profit before taxation of RM0.1 million, of which the continuing operations registered a loss before taxation of RM10.5 million (2008: loss before taxation of RM22.1 million) and the discontinued operations registered a profit before taxation of RM10.6 million (2008: profit before taxation of RM9.6 million), as compared to a profit before taxation of RM16.3 million in the preceding financial quarter.

For the current financial quarter under review, the lower profit before taxation was mainly due to fair value loss of RM2.6 million on the interest rate swap transaction recorded by the Shareholders' Fund. FRS 139 - Financial Instruments: Recognition and Measurement requires the calculation of the 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.

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.



## 22. Review of Performance

For the nine (9) months ended 30 September 2009, the total operating revenue of the Group increased by 1.3% to RM1,538.4 million (2008: RM1,519.1 million). The Group recorded a profit before taxation of RM41.6 million compared to a loss before taxation of RM46.6 million in previous financial year's corresponding period.

The Shareholders' Fund recorded a profit before taxation of RM26.2 million (2008: loss before taxation of RM27.7 million). The General Insurance Division recorded a profit before taxation of RM21.9 million (2008: loss before taxation of RM11.9 million), of which the continuing operations registered a loss before taxation of RM8.2 million (2008: loss before taxation of RM2.4 million) whereas the discontinued operations registered a profit before taxation of RM30.1 million (2008: loss before taxation of RM9.5 million). The discontinued operations of the General Insurance Division represent the General Insurance Business of MAA classified as such to comply with FRS 5: Non-Current Assets Held For Sales and Discontinued Operations following announcement by the Company as disclosed in note 17 of this report.

The profit in Shareholders' Fund was due mainly to reversal of fair value loss of RM37.9 million (2008: fair value loss of RM17.6 million) during the current financial period arising from an interest rate swap transaction resulted from improvement in the market condition of the US municipal bond.

The General Insurance Division registered an increase of 18.8% in terms of total gross premium to RM391.8 million (2008: RM329.9 million). The gross premium from the continuing operations recorded an increase of 21.2% to RM60.6 million (2008: RM50.0 million) and the discontinued operations' gross premium also increased by 18.3% to RM331.2 million (2008: RM279.9 million).

The gross premium of local General Insurance Division has increased by 18.3% to RM331.2 million (2008: RM279.9 million) due mainly to increase in motor premium. The local General Insurance Division's overall net claim ratio improved to 66.2% from 71.6% in the previous financial year's corresponding period.

The local General Insurance Division has also recorded a net other operating income of RM18.0 million (2008: net other operating expenses of RM21.8 million) due mainly to write back of provision made for diminution in value of quoted investments amounting to RM13.2 million (2008: provision for diminution in value of RM25.8 million) arising from the better performance of the stock market.

The Life Insurance Division's gross premium decreased by 11.9% to RM793.3 million (2008: RM900.7 million), mainly from the decrease in first year and single premium from investment-linked products. For the current financial period under review, the Life Insurance Division recorded a net surplus before changes in policy reserve of RM143.7 million (2008: net deficit of RM307.7 million). The surplus was mainly due to write back of provision made for diminution in value of quoted investments amounting to RM49.4 million (2008: provision for diminution in value of RM101.4 million) by the Life Insurance Division of the local insurance subsidiary company arising from the better performance of the stock market

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

In view that the global financial and economic conditions have remained uncertain despite indication of improvement in the global financial markets, the Group expects the operating environment in the financial services sector to remain challenging and competitive. Notwithstanding this, the Group will continue its efforts to implement management action plans to re-strategise its business model and improve asset quality.

Barring unforeseen circumstances, the Group expects its performance for the current financial year to improve.

### 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/(Loss) Per Share

	<u>3 months ended</u>		<u>9 months ended</u>	
	<u>30.09.2009</u>	<u>30.09.2008</u>	<u>30.09.2009</u>	<u>30.09.2008</u>
<u>Attributable to the Equity Holders of the Company:</u>				
Net profit/(loss) for the financial period (RM'000)				
- Continuing operations	(9,117)	(17,371)	13,139	(33,252)
- Discontinued operations	8,367	8,074	23,697	(5,238)
	<u>(750)</u>	<u>(9,297)</u>	<u>36,836</u>	<u>(38,490)</u>
Weighted average number of ordinary shares in issue ('000)	304,354	304,354	304,354	304,354
Basic earnings/(loss) per share (sen)				
- Continuing operations	(3.00)	(5.71)	4.32	(10.93)
- Discontinued operations	2.75	2.65	7.79	(1.72)
	<u>(0.25)</u>	<u>(3.06)</u>	<u>12.11</u>	<u>(12.65)</u>

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

KUALA LUMPUR  
DATE: 26 November 2009  
File: MAAH – 3QtrNotes-300909