

# MAA HOLDINGS BERHAD

## NOTES TO THE REPORT FOR THE FINANCIAL QUARTER ENDED 31 DECEMBER 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, except the following:

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 new measurement basis for investments of MAA does not have impact to 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.

The new valuation basis to assess the life insurance liabilities of MAA constituted a change in accounting policies, however the impact is limited to the Group to restate its 2008 consolidated comparative balances of life policyholders' fund.

### 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 year under review.

### 5. Change in Accounting Estimates

There is no change in basis used for accounting estimates for the current financial year 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 year under review, except the repayment of RM10 million term loan principal as scheduled by the Company.

### 7. Dividend Payment

There is no dividend payment by the Company during the current financial year 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 year 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			
	Life insurance								
	Investmen t-linked fund	Non- investment- linked fund	General insurance fund	Unit trust fund manageme nt	Shareholder s' fund and other operations	General insurance fund	Shareholders' fund and other operations	Eliminations	Group
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>12 months ended 31.12.2009</u>									
<u>Operating Revenue</u>									
External revenue	144,890	1,204,258	83,220	26,452	201,870	498,332	48	-	2,159,070
Intersegment sales	-	3,670	-	-	16,572	200	500	(20,942)	-
Total operating revenue	144,890	1,207,928	83,220	26,452	218,442	498,532	548	(20,942)	2,159,070
<u>Results</u>									
Segment results	119,271	81,848	(5,527)	3,694	37,371	33,516	264	(2,257)	268,180
Transfer (to)/from Life reserve	(119,271)	(81,013)	-	-	-	-	-	-	(200,284)
Profit/(loss) from operations	-	835	(5,527)	3,694	37,371	33,516	264	(2,257)	67,896
<u>12 months ended 31.12.2008 (Audited)</u>									
<u>Operating Revenue</u>									
External revenue	236,201	1,320,115	65,619	26,830	155,934	414,675	2	-	2,219,376
Intersegment sales	-	3,194	-	-	18,114	478	-	(21,786)	-
Total operating revenue	236,201	1,323,309	65,619	26,830	174,048	415,153	2	(21,786)	2,219,376
<u>Results</u>									
Segment results	(141,613)	(59,671)	(6,045)	3,817	(37,251)	(22,387)	(3)	(1,369)	(264,522)
Transfer from Life reserve	141,613	88,538	-	-	-	-	-	-	230,151
Profit/(loss) from operations	-	28,867	(6,045)	3,817	(37,251)	(22,387)	(3)	(1,369)	(34,371)

## 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 were revalued in the previous financial year by independent professional valuers and were assessed during the current financial year for purposes of impairment. The effects of that assessment, if any, have been recorded in the income statement.

## 10. Material Subsequent Events

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

## 11. Changes in Composition of the Group

- (a) On 13 January 2009, Board of Directors of the 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 ("KKSB") via a Sale of Share Agreement entered into on event date, including an amount of RM1,228,805 to be paid by KKSB to MAA Corp as agreed settlement for the inter-company debt as at 31 March 2009 due by VPSB to MAA Corp.
- (c) On 28 December 2009, MAA Corp disposed 100% equity interest in six (6) dormant subsidiaries, namely Jendela Sutera Sdn Bhd, Mytele Direct Sdn Bhd, MAA Cash Converter Sdn Bhd, Daman Development Sdn Bhd, Ukay Sentral Sdn Bhd and MAA Financial Advisors Sdn Bhd, for a cash consideration of RM1 each totaling RM6.

## 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>31.12.2009</u>	<u>As at</u> <u>31.12.2008</u>
	RM'000	RM'000
Performance bonds and guarantees	<u>155,117</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 23 March 2010.

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 trial on 28 June 2010 to 1 July 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 23 March 2010.

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. The case is now fixed for Pre Trial Case Management on 23 March 2010.

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 December 2009 is as follows:

Approved and contracted for	RM'000 <u>18,713</u>
Analysed as follows: -	
- property, plant and equipment	3,623
- investment properties	<u>15,090</u>

## 14. Taxation

	<u>3 months ended</u>		<u>12 months ended</u>	
	<u>31.12.2009</u>	<u>31.12.2008</u>	<u>31.12.2009</u>	<u>31.12.2008</u> <u>(Audited)</u>
	RM'000	RM'000	RM'000	RM'000
<u>CONTINUING OPERATIONS</u>				
<u>Current tax</u>				
Current financial period/year	125	9,936	1,928	11,342
Under/(over) provision in prior years	(26)	118	(2,539)	118
	99	10,054	(611)	11,460
<u>Deferred tax</u>				
Current financial period/year	(131)	21,649	(66)	17,675
Under/(over) provision in prior years	3	2	(5)	2
	(128)	21,651	(71)	17,677
Tax expense/(income)	(29)	31,705	(682)	29,137
<u>DISCONTINUED OPERATIONS</u>				
<u>Current tax</u>				
Current financial period/year	1,964	1,125	2,486	2,500
Over provision in prior years	-	(5,271)	-	(5,271)
	1,964	(4,146)	2,486	(2,771)
<u>Deferred tax</u>				
Current financial period/year	3	(3,037)	5,650	(8,715)
Tax expense/(income)	1,967	(7,183)	8,136	(11,486)

For the current financial year 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 RM46.7 million arising from interest rate swap transaction.

## 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 year amounted to RM0.5 million and RM5.4 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 were 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 was 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”) was submitted. The execution of the BTA was subject to BNM’s approval which is currently pending. The Company and MAA had also granted AMG an extension of 120 days to the exclusivity period under the MOU.

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

On 21 July 2009, the Company announced that the SC approved the Proposed Disposal via its letter dated 20 July 2009 (which was received on 21 July 2009). However, the Proposed Disposal was 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 was 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 ended 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 was submitted to BNM for approval. On 6 January 2010, the Company announced that BNM had via its letter dated 5 January 2010 granted its approval on the Proposed Disposal pursuant to Section 130 of the Insurance Act, 1996. On 12 February 2010, the Company further announced that the SC has approved the revised indicative headline price of RM180 million (subject to adjustments) for the Proposed Disposal via its letter date 10 February 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 19 February 2010 (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>31.12.2009</u> RM'000	<u>As at</u> <u>31.12.2008</u> RM'000 (Audited)
<u>Short term</u>		
Term loan – unsecured	10,000	10,000
Medium terms notes – secured	30,000	-
Bank overdrafts – unsecured	11,420	11,382
	<u>51,420</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>221,420</u>	 <u>231,382</u>

## 19. Off Balance Sheet Financial Instruments

There were no financial instruments with off-balance sheet risk as at 19 February 2010 (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 19 February 2010 (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 RM16.3 million, of which the continuing operations registered a profit before taxation of RM8.8 million (2008: profit before taxation of RM2.4 million) and the discontinued operations registered a profit before taxation of RM7.5 million (2008: loss before taxation of RM8.1 million), as compared to a profit before taxation of RM0.1 million in the preceding financial quarter.

For the current financial quarter under review, the higher profit before taxation was mainly due to reversal of fair value loss of RM8.9 million, compared to a fair value loss of RM2.6 million made in the preceding financial quarter on the interest rate swap transaction as 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. To mitigate the exposure to any further volatility in the interest rate swap, the transaction was terminated by the Company in December 2009.

Consistent with prior years, surplus from the Life Insurance Fund is transferred to the Shareholders' Fund at financial year end. For the current financial quarter/year under review, the surplus transferred from the Life Insurance Fund to the Shareholders' Fund amounted to RM0.8 million (2008: surplus of RM33.8 million), wholly from the overseas and Labuan insurance subsidiary companies. No transfer is made from the local Life Insurance Fund.

For the current financial quarter/year under review, there was a surplus of RM1.6 million (2008: Nil) transferred from the Family Takaful Fund to the Shareholders' Fund.

## **22. Review of Performance**

For the twelve (12) months ended 31 December 2009, the Group's total operating revenue decreased by 2.7% to RM2,159.1 million (2008: RM2,219.4 million). Under the conventional insurance business, the Life Insurance Division recorded a total gross premium of RM1,095.0 million (2008: RM1,277.9 million) whereas the General Insurance Division registered a total gross premium of RM558.4 million (2008: RM436.8 million), of which an amount of RM476.1 million (2008: RM372.1 million) was from the discontinued operations. 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. Under the takaful business, the Family Takaful Division and General Takaful Division registered gross contribution of RM84.7 million (2008: RM76.1 million) and RM72.7 million (2008: RM33.9 million) respectively.

The Group recorded a profit after taxation of RM50.2 million for the current financial year under review (2008: loss after taxation of RM70.0 million). The General Insurance Fund recorded a profit before taxation of RM32.5 million (2008: loss before taxation of RM23.1 million), of which the continuing operations registered a loss before taxation of RM5.0 million (2008: loss before taxation of RM5.5 million) whereas the discontinued operations registered a profit before taxation of RM37.5 million (2008: loss before taxation of RM17.6 million). The Shareholders' Fund recorded a profit before taxation of RM23.0 million (2008: loss before taxation of RM63.0 million). The Life Insurance Fund registered a profit before taxation of RM0.8 million (2008: profit before taxation of RM33.8 million), wholly from the overseas and Labuan insurance subsidiary companies. No transfer is made from the local Life Insurance Fund. The Family Takaful Fund also registered a profit before taxation of RM1.6 million (2008: Nil).

The profit in Shareholders' Fund was due mainly to reversal of fair value loss of RM46.7 million (2008: fair value loss of RM22.6 million) arising from an interest rate swap transaction resulted from improvement in the market condition of the US municipal bond, coupled with the increase in wakalah fee from takaful business during the current financial year. To mitigate the exposure to any further volatility in the interest rate swap, the transaction was terminated by the Company in December 2009.

The profit in General Insurance Fund was due mainly to fair value gain of quoted investments amounting to RM15.8 million (2008: fair value loss of RM26.5 million) and gain on disposal of quoted investments of RM3.1 million (2008: loss of disposal of RM 7.0 million) by the local insurance subsidiary company arising from the better performance of the stock market.

The Life Insurance Division's gross premium decreased by 14.3% to RM1,095.0 million (2008: RM1,277.9 million), mainly due to decrease in first year and single premium business, in particular Fixed Dividend Endowment ("FDE") and investment-linked products.

The Life Insurance Division also recorded a net other operating income of RM50.6 million (2008: net other operating expenses of RM256.2 million) due mainly to fair value gain of quoted investments amounting to RM55.3 million (2008: fair value loss of RM109.0 million) by the Life Insurance Division of the local insurance subsidiary company arising from the better performance of the stock market.

For the current financial year under review, the Family Takaful Fund registered a surplus before taxation of RM31.1 million (2008: RM38.2 million), while the General Takaful Fund recorded a lower loss before taxation of RM2.5 million (2008: RM7.8 million). The surplus transferred from the Family Takaful Fund to the Shareholders' Fund for the current financial year amounted to RM1.6 million (2008: Nil).

With this, the Groups' takaful business made its maiden profit in the second year of full operations. Furthermore, the Group's Family Takaful Fund is anticipating its first distribution of mudharabah profit share to its participants.

As at 31 December 2009, the Group's total assets stood at RM8.0 billion, an increase of 3.9% over 2008 of RM7.7 billion.

### **23. Prospects**

In view that the global financial and economic conditions have remained uncertain, 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 next financial year to perform 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 dividend for the financial year ended 31 December 2009.

## 26. Earnings/(Loss) Per Share

	<u>3 months ended</u>		<u>12 months ended</u>	
	<u>31.12.2009</u>	<u>31.12.2008</u>	<u>31.12.2009</u>	<u>31.12.2008</u>
<u>Attributable to the Equity Holders of the Company:</u>				(Audited)
Net profit/(loss) for the financial period (RM'000)				
- Continuing operations	7,903	(29,903)	21,042	(63,155)
- Discontinued operations	5,305	(914)	29,002	(6,152)
	<u>13,208</u>	<u>(30,817)</u>	<u>50,044</u>	<u>(69,307)</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	2.60	(9.83)	6.91	(20.75)
- Discontinued operations	1.74	(0.30)	9.53	(2.02)
	<u>4.34</u>	<u>(10.13)</u>	<u>16.44</u>	<u>(22.77)</u>

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

KUALA LUMPUR  
DATE: 25 February 2010  
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