MAA GROUP BERHAD

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30 November 2023

Minority Shareholder Watchdog Group
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Attention: Devanesan Evanson
Chief Executive Officer

Re: 25th Annual General Meeting ("AGM") of MAA Group Berhad ("MAAG" Or "The Company") to be held on Thursday, 30 November 2023

We refer to your letter dated 29 November 2023. We thank you for the pertinent observations and are pleased to address the same in the following paragraphs:

Operational & Financial Matters

1. On 16 November 2023, MAAG announced a deviation of 10% or more between the announced unaudited financial statements and the audited results for FYE 30 June 2023. MAAG recorded a net loss of RM1.42 million compared to RM707,000 previously. The variance of more than 10% was mainly due to an adjustment to a subsidiary's ROU (Right of Use) asset. The depreciation of ROU asset was previously capitalised in Q4FY2023 unaudited results and now had been reflected in the profit and loss statement.

   (a) Why did the accounting treatment for ROU assets change from capitalisation to recognition in the profit and loss statement?

   MAAG Response:
   Group subsidiary had relied on para 49 of MFRS 116 to capitalise the depreciation of the ROU. Group auditors requested for it to be expensed off as the property is in use.

   (b) The deviation of more than 10% between the audited and unaudited financial results is a matter of significant consequence as investors rely on public announcements to make informed decisions. What are the measures taken by the Board, Audit Committee and the management to prevent similar circumstances from recurring in the future?

<u>MAAG Response</u>:
The deviation is on loss attributable to the Owners of the Company and not total Loss For the Financial Year. In relation to (a), management will be taking steps to align the same auditor (group auditor) to takeover the major component audit of the group. In addition, management will also ensure additional checks and balances to avoid future recurrence including clearing such issues during the interim audit period.

2. On 15 November 2023, MAAG announced a proposal to dispose of its stake in MAA General Insurance Philippines Inc (MAAGAP) for USD58 million (or equivalent to RM276.32 million) via three tranches. MAAGAP has been the primary income earner for MAAG over the years. It contributed RM175 million (or 61.7%) of revenue and RM19.23 million pre-tax profit in FY2023. In contrast, the other business segments posted losses except for the Education Services in FY2023 (page 23 of AR2023). Generally, the insurance business is regarded as a stable business with consistent income. It would help to cushion the earnings volatility from other divisions in challenging times. Why then would the Group sell MAAGAP (which is akin to killing the goose that lays the golden eggs) and then reinvest the proceeds into other lesser profitable businesses such as Credit Services, Hospitality Services and Education Services?

   <u>MAAG Response</u>:
   The Board believes that the Proposed Disposal provides an opportunity for the Company to unlock and realise the value of its investment in MAAGAP. In arriving at the decision to undertake the Proposed Disposal, the Board also took cognisance of the potential growth of the general insurance business going forward which includes but is not limited to additional capital investment and increasing operating costs.

   In addition, the Philippines business expects to face a challenging operating environment moving forward, in view of the competitive landscape in the Philippines, with 55 active players offering non-life insurance products.

   Hence, the Proposed Disposal represents an opportune time for the Group to divest its Philippines business as well as to refocus its resources to expand its existing business segments, in particular, its education segment. Following the growth and success of St. John's International School which is owned by MAAG, the Group intends to open private international schools in Sabah as well as schools under a renowned brand from the United Kingdom in a few densely populated locations in West and East Malaysia, as well as in Italy. The Board opines that this strategic move aligns with the positive outlook for the education sector.

3. The Group's borrowings comprise loans from substantial shareholders and redeemable preference shares (RPS), which amounted to RM40.19 million and RM15.48 million, respectively (page 147 of AR2023). The loans were unsecured and subject to interest at 8% per annum for the period commencing from the first drawdown date and ending 36 months thereafter. As for the RPS, they are non-convertible and shall not be convertible into ordinary shares. The holders of RPS are entitled to fixed dividends of 4% p.a. In FY2023, the Group incurred finance costs of RM2.52 million for the loans and RPS.

(a) Did the Board consider other means of fundraising before accepting the shareholder loan and issuing RPS at an interest rate of 8% and 4% p.a., respectively?

(b) Why did MAAG accept loans from the substantial shareholder at a high interest rate of 8% p.a. when it had plenty of room to leverage with a low debt-to-equity ratio of 0.01 times (before accepting the loans in FY2023) (page 202 of AR2023).

(c) Is the interest rate competitive as opposed to taking a loan from financial institutions? What justifications were presented to the board of directors to accept the loan?

(d) How did the Company utilise the RM55.67 million loans from the substantial shareholder and issuance of RPS?

MAAG Response (a) – (d):
MAAG has considered other means of fundraising, particularly Bank borrowings. There are currently Bank applications pending which are at different stages of processing and approval. Notwithstanding the low gearing, the rates are considered competitive considering the Group's limited track record in availing unsecured Bank loans/facilities (Group has mainly relied on internal resources and funding), the current high interest rate environment and the unsecured nature of the loans from the substantial shareholder. The loans were mainly used to finance MAAG's or its related companies working capital requirements and to pare down loan taken for acquisition of investment in KNM.

(e) In MAA's announcement dated 15 November 2023, it is stated that Melewar Acquisition Limited granted loans aggregated of RM38 million for an interest rate of 10% p.a. to MAA Corporation Sdn Bhd, a wholly-owned subsidiary of MAAG (page 11 of announcement dated 15 November 2023). Were these loans the same as the loans stated in AR2023? If yes, please explain the discrepancy in the interest rate.

MAAG Response:
Yes, the RM38 million loans from Melewar Acquisition Limited ("Loans") are the same loans from substantial shareholder stated in AR2023. There is a typo error on page 11 of the announcement dated 15 November 2023. The Loans are subject to an annual interest of 8%.

(f) Who are the holders of the RPS?

MAAG Response:
The holders of the RPS are sophisticated investors, comprising of private limited companies and company limited by guarantee.

(g) The RPS may be redeemed at any time at the option of the issuer at the redemption price of RM1 per RPS. Does the Group plan to redeem the RPS as soon as possible?

MAAG Response:
MAAG plans to redeem within 2024.

Corporate Governance Matters

1. MAAG contributed a total of RM7.27 million in three charitable funds (page 53 of AR2023). MAA's executive chairman Tunku Dato' Yaacob Khyra and executive director Tunku Yahaya @ Yahya bin Tunku Tan Sri Abdullah are sitting on the board of trustees of The Budimas Charitable Foundation (TBCF), which in turn runs the three charitable funds contributed by MAA.

   In addition, Ms Anne Rajasaikaran, the chief executive officer overseeing MAA's Education business is also the CEO of TBCF.

   a. Was the amount of RM7.27 million an accumulated or one-off contribution by MAAG in FY2023? If it was an accumulated contribution, what was the amount contributed by MAA to the three charitable funds in FY2023? What charitable causes do these funds promote?

      MAAG Response:
      As part of the Group's Corporate Social Responsibility, we remain committed and dedicated to the community by supporting the Budimas Charitable Foundation. The Budimas Charitable Foundation is a Non-Governmental and Non-Profit Organization. The foundation's mission is to provide guidance and funding in support of the welfare and the well-being of orphans and underprivileged children in Malaysia.

      For FYE 2023, MAAG did not donate cash to Budimas but sponsored and paid RM26,000 for 3 tables, for a charitable function organised by Budimas.

      We understand that the RM7.27 million is from donor contributions, for the financial aid of communities they support.

   b. The directors' connection in the listed and charitable entity gives rise to potential for conflicts of interest. What are the policies and guidelines to address potential conflicts of interest and ensure transparency in donations?

   c. Were the donations to these charitable causes subject to review by the Audit Committee or any other independent party to ensure the objectivity and transparency of donations? Please elaborate on the processes and procedures involved in approving donations.

      MAAG Response:
      The Company has in place general policies and guidelines to cover conflicts of interest scenarios and where, required, will enhance and improve the policies and guidelines to be in line with the relevant authorities/regulatory bodies.

Your Sincerely,

Anand Kanagasingam
Group Chief Operating Officer