



# MAA GROUP BERHAD

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Our Ref: MAAG/FIN/AGM/2017

25 May 2017

Minority Shareholder Watchdog Group  
Tingkat 11, Bangunan KWSP,  
No. 3, Changkat Raja Chulan,  
Off Jalan Raja Chulan,  
50200 Kuala Lumpur

Attention: Puan Lya Rahman  
General Manager – Corporate Services

**Re: Nineteenth (19<sup>th</sup>) Annual General Meeting (AGM) Of MAA Group Berhad (“MAAG” Or “The Company”)**

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We refer to your letter dated 22 May 2017. We thank you for the pertinent observations and are pleased to address the same in the following paragraphs.

## **Strategic & Financial Matters**

1. **Since 2011, the Company has been classified as an affected listed issuer pursuant to Practice Note 17 of the Listing Requirements upon the disposal of its major business, Malaysian Assurance Alliance Berhad with several extensions granted, the latest up to 30 June 2017.**
  - a) **Please explain why it took the Group and Company such a long period since year 2011 to put up a viable plan to regularise the position?**

### **Answer:**

MAAG has gone through the below sequence of events leading to the development as of today.

### **From 2011 to 2014 – Disposal of Malaysian Assurance Alliance Berhad and other identified subsidiaries**

- (i) Although the disposal of the entire equity interest held in Malaysian Assurance Alliance Berhad (now known as Zurich Insurance Malaysia Berhad), Multioto Services Sdn Bhd, Malaysian Alliance Property Services Sdn Bhd, MAAGNET Systems Sdn Bhd and MAAGNET-SSMS Sdn Bhd (hereinafter collectively known as the “Disposal of Identified Subsidiaries”) to Zurich Insurance Company Ltd (“Zurich”) was completed on 30 September 2011, the balance cash proceeds from the Disposal of Identified Subsidiaries (after repayment of borrowings and settlement of Zurich’s claims) (“Balance Cash Proceeds”) was only released partly in September 2013 and partly in August 2014.

MAAG received a total cash consideration of RM344 million from the Disposal of Identified Subsidiaries which was paid in the following manner:

- a. RM140.0 million to redeem its medium term notes;
- b. RM36.4 million to repay the revolving credit facility from Public Bank Berhad;
- c. RM3.8 million to repay restructuring fees charged by DBS Bank Ltd; and
- d. Balance Cash Proceeds to remit to the escrow account, which was subject to warranty and indemnity claims and was held for 2 years from the completion date (by 30 September 2013) ("Release Date"). Prior to the Release Date, Zurich had also released RM6 million in 6 months from the completion date ("First Fund Release Date") and RM3 million every 3 months after the First Fund Release Date until the Release Date to MAAG for its general working capital requirements.

From 2013 to 2014 – Implementation of Islamic Financial Services Act, 2013 ("IFSA")

- (ii) Pursuant to Section 5 of the IFSA which came into operation on 30 June 2013, the existing composite license of MAA Takaful Berhad ( "MAA Takaful") now known as Zurich Takaful Malaysia Berhad) required that MAA Takaful be separated into two (2) legal entities i.e. family takaful and general takaful. The minimum capital for each company will be RM100 million. In this regard, the Balance Cash Proceeds was earmarked to meet the additional capitalisation for MAA Takaful.

Section 126 of the IFSA restricts MAAG's activities as the "financial holding company" of MAA Takaful, to the financial services sector. In this regard, any acquisition that may be undertaken by MAAG will be restricted to only the financial services industry. In view of this restriction, the Board has re-evaluated its financial position vis-à-vis the Group's business plans and operational requirements, and to ensure compliance with the IFSA.

From 2015 to 2016 – Disposal of MAAG's 75% equity interest in MAA Takaful ("Disposal of MAA Takaful")

- (iii) In April 2015 the Board had decided not to proceed with part of its self regularisation plan of maintaining and developing MAA Takaful (which was announced in December 2014), and instead proceeded to undertake the Disposal of MAA Takaful.

The decision was taken after several negotiations and discussions that had taken place between MAAG, Solidarity Group Holding BSC (Closed) and Zurich on the possible divestment of MAA Takaful and after considering the positive response from Zurich to MAAG's pricing expectation on MAA Takaful as contained in MAAG's notice served under the right of first refusal agreement executed between MAAG and Zurich in September 2011, following the previous Disposal of Identified Subsidiaries by MAAG to Zurich. The Board believed that the Disposal of MAA Takaful was timely and provided an opportunity for the MAAG Group to unlock and realise the value of its investment in MAA Takaful at an compelling valuation from Zurich and took note on the substantial capital required to be injected into MAA Takaful pursuant to the Risk-Based Capital Framework for Takaful Operators in the event MAAG continued to maintain and grow the company.

The disposal of MAA Takaful was finally completed on 30 June 2016.

Upon completion of the transaction and finalisation of the completion account of MAA Takaful in December 2016, MAAG is now able to focus on formulation of an appropriate regularisation plan without being restricted to the financial services sector.

**b) Could the Board meet the June 2017 deadline after having failed numerous times?**

**Answer:**

In 2017, MAAG continues its current effort to explore new investment opportunities that fit the corporate objectives, risk appetites and which are within the available financial capacity to acquire.

However, in view of the current progress in this area, MAAG will submit a formal request to Bursa Malaysia Securities Berhad ("Bursa Securities") to further extend the deadline of 30 June 2017.

**c) What are the serious options available, if it failed? Please provide an explanation to move forward.**

**Answer:**

Concurrent with exploring new acquisition target, the Group is also focusing on the development of the general insurance business in the Philippines via MAA General Assurance Philippines, Inc. ("MAAGAP") and the retail mortgage lending and loan securitisation business in Australia via Columbus Capital Pty Ltd ("CCA") to deliver quality growth and sustainable profitability to the Group.

Should the need arise, MAAG will evaluate other options available with the primary objective of maximizing shareholders' value.

2. **As reported under the Chairman's Statements on page 29 and Directors' Report on pages 71-72 of the Annual Report, the Group has embarked on several disposal exercises of its major/key businesses resulting in the remaining investment holdings, education, general insurance (Philippines) and retail mortgage lending in Australia for the past five (5) years.**
- a) **Please explain what are the plans and future for these businesses? Are these businesses going to be major and significant to the Group's survival? If not, why and what is the next strategy?**

Answer:

The sustainability and strategic direction of the remaining businesses namely investment holdings, education, general insurance and retail mortgage lending are reported under Management's Discussion and Analysis on pages 36 to 41 of the Annual Report.

In FY2016, the general insurance recorded 20.0% growth in total gross premiums written to RM137.1 million (FY2015: RM114.2 million) and 35.1% increase in profit before taxation ("PBT") to RM10.4 million (FY2015: RM7.7 million). Riding on the 28.6% growth in loan portfolio to AUD1.8 billion (equivalent to RM5.8 billion) (FY2015: AUD1.4 billion (equivalent to RM4.4 billion)) during FY2016, the retail mortgage lending business recorded 26.1% growth in total operating revenue to RM258.1 million (FY2015: RM204.7 million) and 50.0% increase in PBT to RM5.7 million (FY2015: RM3.8 million). Nevertheless due to the highly competitive and crowded market space in the private tuition sector, the education business recorded a lower total operating revenue to RM6.5 million (FY2015: RM6.8 million) and a loss before taxation ("LBT") of RM55,000 (FY2016: PBT RM691,000).

The organic growth of these businesses alone would not be significant in the short term to uplift the Company from its current PN17 status under the Listing Requirements. The Company has to acquire new businesses with profit sustainability to address the PN17 status.

- b) **Could the Group continue to sustain with these segments, going forward? Please explain what is the position and prospects.**

Answer:

With the business and capital strategic plans in place for the general insurance and retail mortgage lending, the Company could continue to grow and sustain these businesses going forward. For the education business which came into the Group in 2012 through a debt recovery action to enforce security shares of a defaulted debtor, measures to reduce costs, restructuring of human capital including tutors and continuing marketing efforts to increase students' enrolment etc. are in progress to either reduce the loss in FY2017 or breakeven. Due to lack of interest for this asset to provide the opportunities for the Company to sell it, the Company will continue to manage this asset in the interim to maintain the "PTK" brand. Notwithstanding this, the Company will continue to look out for exit plan if eventually not able to turnaround the business.

As for the investment holdings segment, the Company will continue to intensify its efforts to search and identify new businesses with profit sustainability that is within its available financial capacity to acquire to address the PN17 status.

3. The Group's financial performances for the last 3 years were assisted by its corporate exercises and one-off gain from its several disposals. Given such a position,

- a) Please elaborate on the measures taken by the Group Managing Director and its senior management team to improve its business top line and the strategic direction it had taken since 2011 excluding the corporate exercises to offload the company's assets.

Answer:

Since 2011 subsequent to the Disposal of Identified Subsidiaries, the Company had focused on growing the remaining significant local businesses namely takaful and unit trust funds management held via ex-subsidiaries MAA Takaful and MAAKL Mutual Bhd ("MAAKL Mutual"), now known as Zurich Takaful Malaysia Berhad and Manulife Asset Management Services Berhad respectively.

For the past years, MAA Takaful and MAAKL Mutual had recorded growth in business top line and financial performance as follow:

Year	MAA Takaful		MAAKL Mutual	
	Operating revenue	Profit/(loss) before tax	Operating revenue	Profit/(loss) before tax
	RM'000	RM'000	RM'000	RM'000
2011	301,475	15,133	40,086	2,492
2012	377,910	16,032	39,015	2,323
2013 (MAAKL Mutual disposal was completed on 31 December 2013)	493,101	13,047	47,155	4,106
2014	676,495	(3,708)	-	-
2015	549,023	2,813	-	-
6 months ended 30.6. 2016 (MAA Takaful disposal completion date)	279,237	5,540	-	-

Primary efforts were placed in enhancing the growth and performance of MAA Takaful and MAAKL Mutual as part of the self-regularisation plan of the Company. As these businesses grew, they attracted interests from other investors who made compelling offers for these assets over and above the market expectations. The attractive valuations represented good opportunities for the Company to unlock the value of its investments in MAA Takaful and MAAKL Mutual. Another factor considered for MAA Takaful was the extensive capital required to be injected into the company under the Risk-Based Capital Framework for Takaful Operators had the Company continued to maintain this asset. The disposal of MAA Takaful and MAAKL Mutual had generated good returns to the shareholders with net disposal gain of RM280.4 million and RM45.0 million respectively.

At the same time the Company has continued active engagement in the overseas general insurance and retail mortgage lending businesses held via associated companies, MAAGAP and CCA respectively, including providing insurance technical and product expertise and involvement in strategic direction setting etc. In December 2016, the Company had taken the strategic decision to inject additional capital of PHP300 million (equivalent to RM27.3 million) into MAAGAP which upon the approval from the regulatory authority in the Philippines will convert MAAGAP to a 70% owned subsidiary. The regulatory authority in the Philippines had given the approval on 19 April 2017.

- b) Please provide details from the time it was classified as PN17 in 2011 to the date of this AGM.

Answer:

As explained per Answer 3(a) above.

### Corporate Governance Matters

1. We refer to explanatory Notes under 10(B) for Resolution 1 and 10(C) for Resolution 2 respectively to be approved by shareholders at the AGM. Could the Board explain the following:

- a) Please provide the basis and justification for the proposed increase in Directors' Remuneration and benefits to be paid to the directors for FY 2016 and FY 2017.

Answer:

Pursuant to Section 230 of the Companies Act 2016, which came into force on 31 January 2017, any fees and benefits payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting.

The Company is therefore seeking shareholders' approval for the payment of directors' fees to its Non-Executive Directors including one of its subsidiaries, namely MAA International Group Ltd ("MAAIG") (formerly known as MAA International Assurance Ltd) for the period from 1 July 2017 to 30 June 2018. The details of directors' fees for the period from 1 July 2017 to 30 June 2018 compared to the previous year are shown as follows:

<b>MAAG</b>	<b>Old Fee Structure</b>	<b>New Fee Structure</b>	<b>Percentage of Increment</b>
Directors' fee • Non-Executive Director	RM3,750 per month RM45,000 per year	RM5,100 per month RM61,200 per year	36%
<b>MAAIG</b>	<b>Old Fee Structure</b>	<b>New Fee Structure</b>	
Directors' fee • Non-Executive Director	RM1,250 per month RM15,000 per year	RM1,700 per month RM20,400 per year	36%

The Board had on 13 April 2017 agreed to revise and adjust the fee structure of the Company based on various factors including the Board remuneration framework of comparable public listed companies in Malaysia as well as the probable increase in the number of Independent Non-Executive Director of MAAG in the near future. Taking into consideration the current position of MAAG, being a PN17 company, the Board is cognizant of the challenges to be faced in retaining its Independent Directors on the Board of the Company. Furthermore, it be noted that the fee structure has not been revised since 2007.

The proposed amount of benefits payable to the Non-Executive Directors of the Company and MAAIG comprises the meeting allowances, benefits in kind and other emoluments payable to the Non-Executive Directors for the period from 1 June 2017 until the conclusion of the next Annual General Meeting to be held in 2018.

The estimated total benefits for the relevant period, after taking into consideration of the proposed revision to the meeting allowances, frequency of various meetings throughout the year, contingencies for additional meetings, utilisation of other benefits/emoluments, are expected to be approximately RM350,000 per annum. Please be further informed that the benefits structure accorded to the Non-Executive Directors have not been revised upwards and remained the same since 2007.

With the implementation of the new Companies Act, 2016, the directors' responsibility, duty of care and therefore personal liability have increased. The proposed increase in the directors' fees, considering the level of responsibilities and duties to be assumed by them is therefore viewed not substantial.

In conclusion, the proposed increase in directors' fee is therefore deemed equitable and fair to commensurate with Directors' duties, responsibilities and time commitment in discharging their roles.

- b) Given the Group's performance since 2011, could the Board provide its views on the Group's overall performance since 2011 when the Group was placed under PN17 and the only significant activities were the corporate exercises to sell its assets to keep the Company sustainable with no concrete plans to spearhead the company going forward.**

Answer:

Subsequent to 2011 after the disposal of MAA Assurance, the Company being the major 75% shareholder of MAA Takaful continued to remain under the financial services sector regulated by Bank Negara Malaysia ("BNM") where given the various restrictions and requirements the Company is restricted to only acquiring financial services sector assets/businesses. With the reasons as explained per Answer 1(a) under Strategic & Financial Matters, the Board had in April 2015 decided not to proceed with part of its regularisation plan to maintain and develop MAA Takaful and also not to continue to pursue the Financial Holding Company classification for the Company under the IFSA, and instead had decided to proceed with the disposal of MAA Takaful subject to the approval of the shareholders.

With the completion of the disposal of MAA Takaful in June 2016, the Company has exited the financial services sector regulated by BNM. To spearhead the Group moving forward, the Company has continued its efforts to explore other investment opportunities, assessed and evaluated companies engaged in manufacturing, oil and gas, education, assisted reproductive technologies etc. for acquisition as new core businesses to address PN17 status of the Company.

Lastly based on the growth and performance of the Group's remaining businesses with MAA Takaful, MAAKL Mutual, MAAGAP and CCA since 2011, the Board views the Group's overall performance over these periods satisfactory.

c) In the light of the latest extension granted by Bursa until 30 June 2017, what would be the Board's stand on the proposed increase in remuneration for the directors?

Answer:

The Board views the proposed increase in the remuneration for the directors equitable and fair as explained and clarified per Answer 1(a) above.

We trust the above explanations sufficiently address your expressed concerns. Please do not hesitate to contact the undersigned in the event you require further clarifications.

Yours faithfully  
MAA GROUP BERHAD

A handwritten signature in black ink, consisting of several sharp, angular strokes, positioned above a horizontal line.

DATUK MUHAMAD UMAR SWIFT  
GROUP MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER