MAA GROUP BERHAD

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Our Ref: MAAG/FIN/AGM/EGM/2019

28 May 2019

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

Attention: Devanesan Evanson
Chief Executive Officer

Re: 21st Annual General Meeting ("AGM") and Extraordinary General Meeting ("EGM") of MAA Group Berhad ("MAAG" Or "The Company") to be held on Wednesday, 29 May 2019

We refer to your letter dated 24 May 2019. We thank you for the pertinent observations and are pleased to address the same in the following paragraphs.

Strategic & Financial Matters

1. **As stated in the Management's Discussion & Analysis (page 35 & 36 Annual Report), as at 31 December 2018, the Group is in a healthy financial position with zero external debt and strong liquidity level. As at end December 2018, its total assets stood at RM434.9 million where 51.3% comprised of low risk liquid assets in fixed and call deposits, cash and bank balances and its Net Assets per Share stood at RM1.94 (2017: RM2.04)**

   Given the improved and healthy position, what measures has the Board taken in the last 3 years to address its PN17 status? Why have the proposed strategies/plans to regularise the PN17 status has not been successful for the last 8 years? (The Company was placed under PN 17 in 2011)

   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 subsidiaries

   Although the disposal of the entire equity interest held in Malaysia Assurance Alliance Berhad (now known as Zurich Insurance Malaysia Berhad), Multioto Services Sdn Bhd, Malaysian Alliance Property Services Sdn Bhd and MAAGNET Systems Sdn Bhd ("MAAGNET") (including MAAGNET-SSMS Sdn Bhd, a wholly-owned subsidiary of MAAGNET) to Zurich Insurance Company Ltd ("Zurich") ("Disposal of MAA Assurance") was completed on 30 September 2011, the balance cash proceeds from the Disposal of MAA Assurance (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 MAA Assurance which was paid and utilized 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 of up to RM163.8 million was remitted to the escrow account. This sum was subject to warranty and indemnity claims and was held for 2 years from the completion date till 30 September 2013 ("Release Date"). Prior to the Release Date, Zurich had made progressive release of the Balance Cash Proceeds from the escrow account to MAAG for its general working capital requirements i.e. 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.

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

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) capitalised 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 from the disposal of MAA Assurance and other subsidiaries 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 had re-evaluated its financial position vis-à-vis the Group's business plans and operational requirements, and the IFSA compliance requirements.

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

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 MAAG's 75% equity interest in 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 under the previous disposal of MAA Assurance 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 a compelling valuation from Zurich and took note of the substantial capital required to be injected into MAA Takaful pursuant to the Risk-Based Capital Framework for Takaful Operators in the event MAAG had 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 finalization of the completion account of MAA Takaful in December 2016, MAAG then was able to focus on the formulation of an appropriate regularisation plan without being restricted to the financial services sector.

<u>From 2016 to now</u>

(i) In April 2017, MAA International Group Ltd ("MAAIG"), which is a wholly-owned subsidiary of MAA Corporation Sdn Bhd and in turn is a wholly-owned subsidiary of MAAG, had increased its equity interest in MAA General Assurance Philippines, Inc. ("MAAGAP") from 40% to 70% via subscription of 300,000 new MAAGAP shares for RM27.25 million. Subsequently on 11 December 2017, MAAIG had further increased its equity interests in MAAGAP to 99% following the acquisition of MAAGAP shares from other shareholders. With the increased shareholdings in MAAGAP, MAAG's share of profits in MAAGAP increased from 40% to 99%.

(ii) MAAG has been proactively seeking for profitable investment opportunities in the past and has explored various proposals to enhance its earnings profile and regularize its financial condition. However, despite numerous efforts undertaken by the Company, the Company has yet to be able to acquire suitable company for the purpose of the regularisation plan. Some of the reasons for the rejection of investment opportunities considered by the Company in the past are, amongst others, due to:

(a) regulatory environment constraints;
(b) inability to achieve mutually agreed terms;
(c) mismatched valuation expectations;
(d) unsustainable operations;
(e) a lack of fit with our Company's corporate objectives;
(f) our Company's risk appetite; and
(g) reasonable pricing that is within our Company's available financial capacity.

2) We note that the Independent Auditors' Report (page 70, Annual Report) has stated that the approval to submit a regularisation plan by the Group was extended to 30 April 2019. The Group has applied for a further extension of time up to 31 October 2019.

What is the latest plan and timeline set by the Board to resolve the PN17 status? Will the Company apply for further extension of time after 31 October 2019?

<u>Answer:</u>

On 17 May 2019, Bursa Malaysia Securities Berhad ("Bursa") had granted MAAG an extension of time up to 31 October 2019 to submit a regularization plan to the regulatory authorities ("Extension").

If MAAG is unable to meet all the conditions and obtain all the approvals required to implement the Proposed Selective Capital Reduction and Repayment Exercise ("Proposed SCR"), the Extension would provide the time needed by the Company to continue searching for suitable investment opportunities/prospective businesses and to formulate a comprehensive regularisation plan.

Set out below is the tentative timeline in relation to the formulation and submission of a regularization plan:

Date	Key Milestones
End-June 2019	MAAG to continue searching for suitable business proposals and present their finding and analysis to the Board.
End-June 2019	Receipt of the balance cash proceeds of RM93.75 million from the MAAT Disposal completed in 2016.
Early-July 2019 to End-October 2019	• MAAG to commence due diligence review on selected investment, if identified. • Appointment of relevant advisers to prepare the regularization plan for submission to regulatory authorities for approval. • Submission of regularisation plan to regulatory authorities for approval.

In the event the formulation and submission of the regularization plan was not completed by end of October 2019, MAAG will seek Bursa's approval for a further extension of time for MAAG to submit its regularization plan to regulatory authorities for approval.

3. Why has the Board not considered distributing part of the available liquid assets as dividends to shareholders?

Answer:

For the last three (3) financial years, MAAG had paid a total dividend of RM150.5 million to the shareholders as follow:

Financial Year ended	Dividend rate	Dividend amount (RM'mil)
31 December 2016	41 sen per share	117.7
31 December 2017	9 sen per share	24.6
31 December 2018	3 sen per share	8.2
Total		**150.5**

The total dividend payment made up to 41% of the net sale proceeds of MAA Takaful.

The Company's priority is to search and acquire suitable businesses/assets with sustainable profits and reasonable pricing to address the PN17 status. To achieve this, the Board intends to conserve the Company's cash resources so that it has the available financial capacity to formulate a viable regularization plan for submission to regulatory authorities for approval.

Extraordinary General Meeting

1. **The Company has via a Circular to Shareholders dated 3 May 2019 informed that it has received a Proposed Selective Capital Reduction and Repayment Exercise (SCR) under Section 116 of the Companies Act, 2016 from Melewar Acquisitions Limited and Melewar Equities (BVI) Ltd, both collectively owning 38.67% of the issued share capital of the Company of RM304,353,752 comprising 273,517,752 MAAG Shares. Under the SCR, the Non-Interested/Entitled Shareholders own 167,740,668 MAAG Shares representing 61.33% of the issued share capital of the Company. The offer price is RM1.10 for each MAAG Share.**

   - **Why did the Board not reject the SCR, given that the offer price is at steep discount of 42.3% from the Net Assets per Share of RM1.94 per MAAG Share as at 31 December 2018? (The Group as at 31 December 2018, is in a healthy financial position with zero external debt and strong liquidity level.)**

   - **Why did the Board consider it fair to Non-Interested Shareholders and has recommended to vote for the approval to utilize the remaining sale proceeds from the disposal of MAA Takaful Berhad of around RM208.15 million to partly fund the SCR? (page 45, Circular)**

   (The sale proceeds are to fund the Group's future investment opportunities/prospective business)

   Answer:

   The Board is well aware of its fiduciary duty towards the Company and the shareholders including the minority shareholders. The Non-Interested Directors had, through their letter dated 26 March 2019, requested that the Non-Entitled Shareholders consider revising the SCR Offer Price upwards. However, the Non-Entitled Shareholders did not agree with the request and had reverted with their decision not to revise the SCR Offer Price.

   The Non-Interested Directors are of the opinion that the Proposed SCR represents an exit opportunity to the minority shareholders as opposed to the lackadaisical historical trading performance of the Company's shares on Bursa Malaysia owing partly to the PN17 status. The Non-Interested Directors are of the opinion that minority shareholders should be given the opportunity to decide on the Proposed SCR, and it should not be rejected outright by the Non-Interested Directors.

Corporate Governance Matters

We note from the Corporate Governance Overview Statement (page 43, Annual Report) that one of the directors, Dato's Narendrakumar Jasani did not attend 2 out of the 5 Board meetings during the year. He also did not attend 3 out of 5 of the Audit Committee meetings and 3 out of 4 of the Risk & Sustainability Management Committee meetings held in 2018. The director is the Chairman of the Risk & Sustainability Management Committee.

Please explain.

Answer:

The Board of Directors takes note of the above observation. During the year 2018, Dato' Jasani was the Vice President of the Malaysian Institute of Accountants (MIA). He had been required to attend important meetings at the Ministry of Finance and other ad-hoc emergency meetings and as such was unable to attend the 3 of the scheduled meetings for the year.

However, Dato' Jasani had ensured to be briefed on the risk reports, as the Chairman of the Risk & Sustainability Management Committee by having prior meetings with the Internal Auditors and the persons in-charge of the Risk & Sustainability.

Additionally, he also deliberated with and briefed another Member of the Risk & Sustainability Management Committee prior to the said meetings.

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

TUNKU DATO' YAACOB KHYRA
EXECUTIVE CHAIRMAN