

MANULIFE HOLDINGS BERHAD

Interim financial statements for the six months period ended 30 June 2010

Notes to the Interim Financial Statements

1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with Financial Reporting Standard (“FRS”) 134, “Interim Financial Reporting” and paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2009.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2009.

2. Changes in accounting policies

The accounting policies and presentation adopted by the Group for the quarterly financial statements are consistent with those adopted in the Group’s consolidated audited financial statements for the financial year ended 31 December 2009, except for the adoption of the following:

<u>FRSs/Interpretations</u>	<u>Effective date</u>
FRS 8 Operating Segments	1 July 2009
FRS 4 Insurance Contracts	1 January 2010
FRS 7 Financial Instruments: Disclosures	1 January 2010
FRS 101 (Revised) Presentation of Financial Statements	1 January 2010
FRS 123 Borrowing Costs	1 January 2010
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations	1 January 2010
IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10 Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11, FRS 2 - Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13, Customer Loyalty Programmes	1 January 2010
IC Interpretation 14, FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010

The adoption of the above standards, amendments and interpretations do not have any material impact to the financial statements of the Group except for the implication as discussed below:

FRS 4: Insurance Contracts

Arising from the adoption of FRS 4, the presentation of the financial statements of the Group is made reference to the model insurance financial statements (draft 1 October 2009) released by The Malaysian Institute of Certified Public Accountants (“MICPA”). Certain disclosures and comparative information have been restated.

FRS 8: Operating Segments

As of 1 January 2010, the Group presents its operating segment information based on the information that is internally provided to the management for decision making. The disclosure and comparative segment information has been represented to conform with the requirements of FRS 8.

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2. Changes in accounting policies (continued)

FRS 101: Presentation of Financial Statements

Prior to the adoption of the revised FRS 101, the components of the financial statements presented consisted of a balance sheet, an income statement, a revenue account for the life insurance business, a statement of changes in equity, a cash flow statement and notes to financial statements. With the adoption of the revised FRS 101, the components of the interim financial statements presented consist of a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and notes to the financial statements. All non-owner changes in equity that were presented in the statement changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity. This standard does not have any impact to the financial position and results of the Group.

At the date of authorisation of these interim financial statements, the following accounting standards, amendments and interpretations have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Group:

FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3 Business Combinations	1 July 2010
FRS 127 Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 2 Share-based Payment	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138 Intangible Assets	1 July 2010
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 1 Additional Exemptions for First-time Adopters	1 January 2011
Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions	1 January 2011
IC Interpretation 4 Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 18 Transfers of Assets from Customers	1 January 2011

The adoption of the other revised FRSs, amendments to FRSs and IC Interpretations is not expected to have any material impact on the financial statements of the Group.

3. Status of audit qualification

There was no audit qualification in the annual financial statements for the financial year ended 31 December 2009.

4. Seasonal/cyclical factors

The business operations of the Group are subject to the sales cycle of the insurance business.

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current financial period ended 30 June 2010 except for the deferred tax provision on unallocated surplus as disclosed in Note 27.

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6. Change in estimates

There were no changes in the basis used for accounting estimates for the current financial period to date.

7. Debt and equity securities

There were no issuances, cancellation, repurchases, resale and repayment of debt and equity securities during the current financial period.

8. Dividends

A first and final dividend of 17 sen per share less income tax of 25% tax amounting to RM25.8 million for the financial year ended 31 December 2009 was approved at the last Annual General Meeting on 28 June 2010 and the dividend was paid on 13 July 2010.

No dividend has been declared in respect of the current financial period ended 30 June 2010.

9. Material events subsequent to the end of the period

There is no material event subsequent to the end of the period under review that has not been reported in the interim financial statements for the current financial period to date.

10. Valuations of land and buildings and investment properties

The land and buildings and investment properties of the Group were last revalued in 2009.

11. Changes in composition of the Group

There is no change in the Group's composition for the current financial period to date.

12. Contingent liabilities

There were no contingent liabilities as at the date of this report since the last annual balance sheet date.

13. Current year prospects

In line with its aspiration to be a leading financial services organisation, the Group will introduce new life insurance and unit trust products that appeal to the different consumer appetites. The Group will also be consciously managing its bottom line, taking active measures to ensure cost efficiency and productivity. With these plans, we expect the Group to remain competitive in the respective industries it operates in. Barring any unforeseen circumstances, the Directors expect the Group's performance to remain satisfactory in the remaining period to the end of the financial year ending 31 December 2010.

14. Profit forecast

The Group did not issue any profit forecast during the financial period to date.

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15. Operating Segments

The core businesses of the Group are the life insurance business, management of unit trust funds, investment and fund management. Segment information is presented in respect of the Group's business segments which are as follows:

Investment holding : investment holding operations

Life insurance : underwriting of participating and non-participating life insurance, annuity, and unit-linked products

Asset management : investment and fund management

Unit Trust : management of unit trust funds

a) Segment reporting

	6 months ended 30 June									
	Investment holding		Life insurance business		Asset management		Unit trusts		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue										
a) Gross premium	-	-	212,800	219,280	-	-	-	-	212,800	219,280
b) Investment income	8,556	8,240	56,802	54,839	34	37	64	72	65,456	63,188
c) Fee income	-	-	1,989	1,346	-	-	641	-	2,630	1,346
Total external revenue	8,556	8,240	271,591	275,465	34	37	705	72	280,886	283,814
Inter-segment revenue										
a) Rental income	452	365	343	297	-	-	-	-	795	662
b) Fee income	798	823	-	-	2,783	1,184	-	-	3,581	2,007
c) Dividend income	-	38,010	-	-	-	-	-	-	-	38,010
Total inter-segment revenue	1,250	39,198	343	297	2,783	1,184	-	-	4,376	40,679
Total operating revenue	9,806	47,438	271,934	275,762	2,817	1,221	705	72	285,262	324,493
Profit/(loss) from operation	6,297	5,883	40,313	34,393	483	286	(712)	13	46,381	40,575
Segment assets	760,644	725,666	2,956,034	2,721,854	3,704	2,983	11,228	12,804	3,731,610	3,463,307
Segment liabilities	72,692	93,712	2,956,034	2,721,854	67	262	538	809	3,029,331	2,816,637

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15. Operating Segments (continued)

b) Reconciliation of reportable segment

	Cumulative 6 months ended 30 June	
	2010 RM'000	2009 RM'000
Operating revenue		
Total operating revenue for reportable segments	285,262	324,493
Elimination of inter-segment revenue	(4,376)	(40,679)
Consolidated operating revenue	280,886	283,814
	As at 30.06.2010 RM'000	As at 30.06.2009 RM'000
Segment assets		
Total assets for reportable segments	3,731,610	3,463,307
Elimination of inter-segment assets	(273,746)	(285,345)
Consolidated assets	3,457,864	3,177,962
Segment liabilities		
Total liabilities for reportable segments	3,029,331	2,816,637
Elimination of inter-segment liabilities	(70,609)	(82,209)
Consolidated liabilities	2,958,722	2,734,428

16. Review of performance

The Group recorded operating revenue of RM280.9 million for the period ended 30 June 2010, a decrease of 1.0% or RM2.9 million compared to the corresponding financial period ended 30 June 2009 of RM283.8 million. The decrease was mainly due to the decrease in gross premium from investment-linked business.

The Group operating revenue for the current quarter ended 30 June 2010 of RM148.6 million was 1.1% higher compared to RM147.0 million for the preceding year's corresponding quarter. The increase was also mainly due to the rise in gross premium income from non investment-linked business.

The Group's profit before taxation was RM46.4 million for the current financial period, RM5.8 million higher compared to the corresponding financial period ended 30 June 2009 of RM40.6 million. The increase was mainly due to higher surplus arising from ordinary life business.

For the current quarter ended 30 June 2010, the profit before taxation for the Group was RM22.0 million, RM1.6 million lower compared to RM23.7 million for the preceding year's corresponding quarter. The decrease was mainly due to unrealised loss on investments from investment-linked business. However, the loss has no impact to the Group's profit after taxation as it offset against gross change to contract liabilities and taxation. Higher profit after taxation was mainly due to higher surplus arising from ordinary life business.

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17. Material changes in the quarterly results compared to the results of preceding quarter

The Group attained lower profit before tax of RM22.0 million for the current quarter under review compared to the preceding quarter ended 31 March 2010 of RM24.3 million. The decrease of RM2.3 million was mainly due lower surplus arising from ordinary life business.

18. Net earned premiums

Included in the net earned premiums were first year, renewal year and single premium, net of reinsurance during the financial period:

	3 months ended		Cumulative 6 months ended	
	<u>30.06.2010</u>	<u>30.06.2009</u>	<u>30.06.2010</u>	<u>30.06.2009</u>
	RM'000	RM'000	RM'000	RM'000
First year premium	16,416	14,634	31,121	25,550
Renewal year premium	94,795	90,005	174,379	166,623
Single premium	1,339	7,461	2,597	23,728
Total	<u>112,550</u>	<u>112,100</u>	<u>208,097</u>	<u>215,901</u>

19. Taxation

	3 months ended		Cumulative 6 months ended	
	<u>30.06.2010</u>	<u>30.06.2009</u>	<u>30.06.2010</u>	<u>30.06.2009</u>
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Current tax	7,454	6,086	15,035	10,401
- Deferred tax	(1,521)	2,864	(1,048)	2,205
	<u>5,933</u>	<u>8,950</u>	<u>13,987</u>	<u>12,606</u>
In respect of prior periods:				
Over provision in respect of prior periods	-	(216)	(377)	(216)
	<u>5,933</u>	<u>8,734</u>	<u>13,610</u>	<u>12,390</u>

The income tax for the Group are calculated based on the tax rate of 25% (2009: 25%) of the estimated assessable profit for the financial period. The income tax for the Life fund is calculated based on the tax rate of 8% (2009: 8%) of the assessable investment income net of allowable deductions for the financial period.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate is as below.

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Notes to the Interim Financial Statements**19. Taxation** (continued)

	3 months ended		Cumulative 6 months ended	
	<u>30.06.2010</u>	<u>30.06.2009</u>	<u>30.06.2010</u>	<u>30.06.2009</u>
	RM'000	RM'000	RM'000	RM'000
Profit from operation	<u>22,044</u>	<u>23,657</u>	<u>46,381</u>	<u>40,575</u>
Taxation at Malaysian statutory tax rate at 25%	5,511	5,914	11,595	10,144
Section 110B tax credit set off	(822)	(671)	(1,639)	(1,217)
Over provision in respect of prior periods	-	(216)	(377)	(216)
Expenses not deductible for tax purposes	126	86	167	86
Reversal of deferred tax upon disposal of property	-	(355)	-	(355)
Tax expense on investment income of life insurance business	1,118	3,976	3,864	3,948
Tax expense	<u>5,933</u>	<u>8,734</u>	<u>13,610</u>	<u>12,390</u>

20. Profit / loss on sale of unquoted investments and / or properties

There was no sale of unquoted investments and properties during the current quarter.

The Group has disposed unquoted investments amounting to RM32,388,640 in the current financial period which has given rise to a realised gain of RM548,817.

There was no sale of investment properties for the current financial period.

21. Quoted securities

a) The following are the particulars of purchase or disposal of quoted securities other than in respect of its insurance subsidiary:

	<u>Current Quarter</u> RM'000	<u>Current Year to Date</u> RM'000
i) <u>Purchase</u>		
Total purchase consideration	<u>1,231</u>	<u>1,231</u>
ii) <u>Disposal</u>		
Sales proceeds of quoted shares	<u>2,211</u>	<u>3,577</u>
Realised gains	<u>368</u>	<u>210</u>

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21. Quoted securities (continued)

b) Investment in quoted shares as at 30 June 2010:

	RM'000
i) At cost	<u>20,439</u>
ii) At carrying value/market value	<u>21,709</u>

22. Derivatives

Included in the fair value through profit and loss financial assets is an Equity Call Option ("ECO") which allows the Group to exercise at the end of the option period of 5 years. If the underlying index, i.e. Hang Seng Index ends above the exercise index level, the returns will be positive. Otherwise, the option will expire without value. The ECO is used for yield enhancement of an investment-linked insurance product, and as such, changes in value of the ECO have no impact to the profit or loss of the Group. This derivative is denominated in Hong Kong Dollar.

The remaining period to maturity and value of the ECO as at 30 June 2010 is as follow:

	Notional Value RM'000	Fair Value RM'000	Unrealised Loss RM'000
- 1 year to 3 years	<u>16,955</u>	<u>4,124</u>	<u>836</u>

There are no changes to the accounting policies related to derivative instruments since the last financial year end.

Except for the market risk, there is no change in the credit risk and liquidity risk since the last financial year end. Market risk results from adverse changes in fair values or price risk from fluctuation in the equity market and market interest rates. Market risk is managed through regular review of the investment portfolio to measure its performance and to ascertain that the investment strategies are consistent with the objective of the Group. An internal risk management system and policy for derivative instruments are also in place.

23. Group borrowings

The Group does not have any borrowings as at 30 June 2010.

24. Material litigation

There are no material litigation as at the date of this report.

25. Status of corporate proposal

As at the date of this report, there are no corporate proposal that have been announced but not completed.

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26. Earnings per share

(a) Basic earnings per share

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue.

		3 months ended		Cumulative 6 months ended	
		<u>30.06.2010</u>	<u>30.06.2009</u>	<u>30.06.2010</u>	<u>30.06.2009</u>
Net profit attributable to shareholders (RM'000)		16,111	14,923	32,771	28,185
Weighted average number of ordinary shares in issue ('000)		<u>202,370</u>	<u>202,370</u>	<u>202,370</u>	<u>202,370</u>
Basic earnings per share (Sen)		<u>7.96</u>	<u>7.37</u>	<u>16.19</u>	<u>13.93</u>

(b) Diluted earnings per share

There is no dilution in earnings per share as there are no dilutive potential ordinary shares as at 30 June 2010.

27. Insurance contract liabilities

The insurance contract liabilities comprise the following:

	As at 30.06.2010 RM'000	As at 31.12.2009 RM'000
Actuarial liabilities	1,889,797	1,862,288
Unallocated surplus	256,216	266,024
Deferred tax provision on unallocated surplus	(48,754)	-
Unallocated surplus, net of deferred tax	207,462	266,024
Fair value reserve	85,620	57,654
Investment-Linked policyholders' account	<u>359,377</u>	<u>367,223</u>
	<u>2,542,256</u>	<u>2,553,189</u>

With effect from 1 January 2010, life insurance companies are required to set aside deferred tax provision for the shareholders' portion of unallocated surpluses. Under the Risk-Based Capital Framework, the gross amount of the unallocated surplus shall be included in Tier 1 capital for the purpose of computing the Capital Adequacy Ratio.

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28. Cash and cash equivalents

The cash and cash equivalents comprise the following:

	<u>As at</u> <u>30.06.2010</u> RM'000	<u>As at</u> <u>31.12.2009</u> RM'000
Shareholders and others	3,858	3,989
Non Investment-Linked business	8,944	15,783
Investment-Linked business	1,297	407
	<u>14,099</u>	<u>20,179</u>

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
25 August 2010

Chin Mun Yee
Joint Secretary