

# MANULIFE HOLDINGS BERHAD

Interim financial statements for the nine months period ended 30 September 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
Amendment to IC Interpretation 15	1 January 2012
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
Amendments to FRS 7 Improving Disclosures about Financial Instruments	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.

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### **Notes to the Interim Financial Statements**

#### **5. Unusual items**

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

#### **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 September 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 except as follow:

On 13 October 2010, the Company received a notice of conditional take-over offer from CIMB Investment Bank Berhad ("CIMB Bank") on behalf of Manulife Century Holdings (Netherlands) B.V. ("MCHN" or "Offeror") to acquire all the remaining ordinary shares of RM0.50 each in the Company not already owned by MCHN at a cash offer price of RM3.22 for each offer share.

On 21 October 2010, the Company appointed AmInvestment Bank Berhad as the Independent Adviser to advise the non-interested Directors and Shareholders of the Company in relation to the Conditional Take-over Offer from CIMB Investment Bank Berhad on behalf of Manulife Century Holdings (Netherlands) B.V.

On 26 October 2010, the offer became unconditional as MCHN held 50.08% of the issued and paid up capital of the Company.

As at 8 November 2010, MCHN held 50.83% of the issued and paid up capital of the Company.

#### **10. Valuations of land and buildings and investment properties**

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

## **MANULIFE HOLDINGS BERHAD**

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### **Notes to the Interim Financial Statements**

#### **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.

#### **15. Group borrowings**

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

#### **16. Material litigation**

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

#### **17. 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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## Notes to the Interim Financial Statements

### 18. 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 and unit-linked products
- Asset management : investment and fund management
- Unit Trust : management of unit trust funds

#### a) Segment reporting

	9 months ended 30 September									
	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	-	-	328,145	328,816	-	-	-	-	328,145	328,816
b) Investment income	13,588	12,505	89,935	85,550	59	39	101	128	103,683	98,222
c) Fee income	-	-	2,963	2,209	-	-	895	-	3,858	2,209
<b>Total external revenue</b>	<b>13,588</b>	<b>12,505</b>	<b>421,043</b>	<b>416,575</b>	<b>59</b>	<b>39</b>	<b>996</b>	<b>128</b>	<b>435,686</b>	<b>429,247</b>
Inter-segment revenue										
a) Rental income	676	548	515	445	-	-	-	-	1,191	993
b) Fee income	1,278	1,252	-	-	4,294	2,503	-	-	5,572	3,755
c) Dividend income	-	80,892	-	-	-	-	-	-	-	80,892
<b>Total inter-segment revenue</b>	<b>1,954</b>	<b>82,692</b>	<b>515</b>	<b>445</b>	<b>4,294</b>	<b>2,503</b>	<b>-</b>	<b>-</b>	<b>6,763</b>	<b>85,640</b>
<b>Total operating revenue</b>	<b>15,542</b>	<b>95,197</b>	<b>421,558</b>	<b>417,020</b>	<b>4,353</b>	<b>2,542</b>	<b>996</b>	<b>128</b>	<b>442,449</b>	<b>514,887</b>
<b>Profit/(loss) from operation</b>	<b>10,603</b>	<b>8,849</b>	<b>58,024</b>	<b>54,879</b>	<b>941</b>	<b>672</b>	<b>(1,298)</b>	<b>(119)</b>	<b>68,270</b>	<b>64,281</b>
<b>Segment assets</b>	<b>754,434</b>	<b>701,157</b>	<b>3,110,161</b>	<b>2,855,403</b>	<b>4,259</b>	<b>3,262</b>	<b>10,824</b>	<b>12,836</b>	<b>3,879,678</b>	<b>3,572,658</b>
<b>Segment liabilities</b>	<b>46,741</b>	<b>43,225</b>	<b>3,110,161</b>	<b>2,855,403</b>	<b>287</b>	<b>263</b>	<b>616</b>	<b>985</b>	<b>3,157,805</b>	<b>2,899,876</b>

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### 18. Operating Segments (continued)

#### b) Reconciliation of reportable segment

	Cumulative 9 months ended 30 September	
	2010	2009
	RM'000	RM'000
<b>Operating revenue</b>		
Total operating revenue for reportable segments	442,449	514,887
Elimination of inter-segment revenue	(6,763)	(85,640)
<b>Consolidated operating revenue</b>	<b>435,686</b>	<b>429,247</b>
	<b>As at</b>	<b>As at</b>
	<b>30.09.2010</b>	<b>30.09.2009</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Segment assets</b>		
Total assets for reportable segments	3,879,678	3,572,628
Elimination of inter-segment assets	(286,297)	(286,550)
<b>Consolidated assets</b>	<b>3,593,381</b>	<b>3,286,078</b>
<b>Segment liabilities</b>		
Total liabilities for reportable segments	3,157,805	2,899,876
Elimination of inter-segment liabilities	(83,160)	(83,413)
<b>Consolidated liabilities</b>	<b>3,074,645</b>	<b>2,816,463</b>

### 19. Review of performance

The Group recorded operating revenue of RM435.7 million for the period ended 30 September 2010, an increase of 1.5% or RM6.4 million compared to the corresponding financial period ended 30 September 2009 of RM429.2 million. The increase was mainly due to higher investment income.

The Group operating revenue for the current quarter ended 30 September 2010 of RM154.8 million was 6.4% higher compared to RM145.4 million for the preceding year's corresponding quarter. The increase was mainly due to higher investment income and gross premium income from insurance business.

The Group's profit before taxation was RM68.2 million for the current financial period, RM4.0 million higher compared to the corresponding financial period ended 30 September 2009 of RM64.3 million. The increase was mainly due to higher surplus arising from life business.

For the current quarter ended 30 September 2010, the profit before taxation for the Group was RM21.9 million, RM1.8 million lower compared to RM23.7 million for the preceding year's corresponding quarter. The decrease was mainly due to higher claims from life business.

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

The Group attained lower profit before tax of RM21.9 million for the current quarter under review compared to the preceding quarter ended 30 June 2010 of RM22 million. The decrease of RM0.1 million was mainly due to higher claims from life business.

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### 21. 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 9 months ended	
	<u>30.09.2010</u>	<u>30.09.2009</u>	<u>30.09.2010</u>	<u>30.09.2009</u>
	RM'000	RM'000	RM'000	RM'000
First year premium	14,470	14,874	45,591	40,424
Renewal year premium	96,704	90,633	271,083	257,256
Single premium	1,492	1,246	4,089	24,974
<b>Total</b>	<u>112,666</u>	<u>106,753</u>	<u>320,763</u>	<u>322,654</u>

### 22. Taxation

	3 months ended		Cumulative 9 months ended	
	<u>30.09.2010</u>	<u>30.09.2009</u>	<u>30.09.2010</u>	<u>30.09.2009</u>
	RM'000	RM'000	RM'000	RM'000
<b>In respect of current period:</b>				
- Current tax	6,742	6,584	21,777	16,985
- Deferred tax	2,256	2,593	1,208	4,798
	<u>8,998</u>	<u>9,177</u>	<u>22,985</u>	<u>21,783</u>
<b>In respect of prior periods:</b>				
Over provision in respect of prior periods	-	-	(377)	(216)
	<u>8,998</u>	<u>9,177</u>	<u>22,608</u>	<u>21,567</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****22. Taxation** (continued)

	3 months ended		Cumulative 9 months ended	
	<u>30.09.2010</u>	<u>30.09.2009</u>	<u>30.09.2010</u>	<u>30.09.2009</u>
	RM'000	RM'000	RM'000	RM'000
Profit from operation	<u>21,889</u>	<u>23,706</u>	<u>68,270</u>	<u>64,281</u>
Taxation at Malaysian statutory tax rate at 25%	5,473	5,926	17,068	16,070
Section 110B tax credit set off	(803)	(730)	(2,442)	(1,947)
Over provision in respect of prior periods	-	-	(377)	(216)
Expenses not deductible for tax purposes	143	77	310	163
Reversal of deferred tax upon disposal of property	-	-	-	(355)
Tax expense on investment income of life insurance business	4,185	3,904	8,049	7,852
Tax expense	<u>8,998</u>	<u>9,177</u>	<u>22,608</u>	<u>21,567</u>

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

The Group has disposed unquoted investments amounting to RM 4,593,976 for the current quarter. This has given rise to a realised gain of RM 29,024.

For the current financial period, the Group has disposed unquoted investments amounting to RM36,982,616. This has given rise to a realised gain of RM577,841.

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



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## Notes to the Interim Financial Statements

### 24. Quoted securities

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

a) Total purchase consideration and sale proceeds of quoted securities during the financial period:

	<u>Current Quarter</u> RM'000	<u>Current Year to Date</u> RM'000
i) <u>Purchase</u>		
Total purchase consideration of quoted shares	<u>2,096</u>	<u>3,327</u>
ii) <u>Disposal</u>		
Sales proceeds of quoted shares	<u>3,377</u>	<u>6,954</u>
Realised gains	<u>84</u>	<u>294</u>

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

	<b>RM'000</b>
i) At cost	<u>18,491</u>
ii) At carrying value/market value	<u>21,535</u>

### 25. 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 September 2010 is as follow:

	Notional Value RM'000	Fair Value RM'000	Unrealised Gain RM'000
- 1 year to 3 years	<u>15,927</u>	<u>5,405</u>	<u>535</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.

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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 9 months ended	
		<u>30.09.2010</u>	<u>30.09.2009</u>	<u>30.09.2010</u>	<u>30.09.2009</u>
Net profit attributable to shareholders (RM'000)		12,891	14,529	45,662	42,714
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>
<b>Basic earnings per share (Sen)</b>		<u>6.37</u>	<u>7.18</u>	<u>22.56</u>	<u>21.11</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 September 2010.

### 27. Insurance contract liabilities

The insurance contract liabilities comprise the following:

	<b>As at 30.09.2010 RM'000</b>	<b>As at 31.12.2009 RM'000</b>
Actuarial liabilities	1,911,060	1,862,288
Unallocated surplus	254,429	266,024
Deferred tax provision on unallocated surplus	(49,894)	-
Unallocated surplus, net of deferred tax	204,535	266,024
Fair value reserve	154,887	57,654
Investment-Linked policyholders' account	<u>381,032</u>	<u>367,223</u>
	<u>2,651,514</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>30.09.2010</u> RM'000	<u>As at</u> <u>31.12.2009</u> RM'000
Shareholders and others	2,867	3,989
Non Investment-Linked business	10,402	15,783
Investment-Linked business	1,611	407
	<hr/> <u>14,880</u>	<hr/> <u>20,179</u>

### BY ORDER OF THE BOARD

Chua Siew Chuan  
**Joint Secretary**  
16 November 2010

Chin Mun Yee  
**Joint Secretary**