

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2011

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 ("Bursa Securities"), and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2010.

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 2010.

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 2010, except for the adoption of the following:

<u>FRSs/Interpretations</u>	<u>Effective Date</u>
Amendments to FRS 7 "Financial instruments: Disclosures – Improving disclosures about financial instruments"	1 January 2011

The adoption of the revised standards, amendments and interpretations issued by Malaysian Accounting Standards Board ("MASB") which are effective in the current year do not have any material impact to the financial statements of the Group.

As at the date of authorisation of these interim financial statements, the adoption of the revised FRSs, amendments to FRSs and IC Interpretations but not yet effective issued by MASB in the current year is not expected to have any material impact on the financial statements of the Group, other than additional disclosures.

3. Status of audit qualification

There was no audit qualification in the annual financial statements for the preceding financial year ended 31 December 2010.

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 financial year ended 31 December 2011.

6. Change in estimates

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

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7. Debt and equity securities

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

8. Dividends

A first and final dividend of 18 sen per share less income tax at 25% amounting to RM27.3 million for the financial year ended 31 December 2010 was approved at the last Annual General Meeting on 23 June 2011 and the dividend was paid on 13 July 2011.

The dividend for the financial year ended 31 December 2011 will be determined by the Board upon the finalisation of the said audited financial statements.

9. Material events subsequent to the end of the financial period

There is no material event subsequent to the end of the financial period under review that has not been reported in the interim financial statements for the current financial year 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 the current quarter ended 31 December 2011.

11. Changes in composition of the Group

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

12. Contingent liabilities

There are no contingent liabilities as at the date of this report since the date of the last annual statement of financial position.

13. Next financial year prospects

In line with the Group's aspiration to be a leading financial services organisation, the Group will introduce new life insurance and unit trust products that appeal to different consumers' 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.

The Group expect the financial market to remain volatile, particularly in the near term due to the continued sovereign debt crisis in Europe and concerns of the softer US economy. This in turn may affect the revenue of the Group from investments. The Group will continue to focus its life insurance business on investment-linked plans to mitigate the impact of low investment yields. The Group will be selective in introducing funds to differentiate against competition.

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13. Next financial year prospects (continued)

Barring any unforeseen circumstances, the Directors expect the Group's performance to remain satisfactory in the next financial year ending 31 December 2012.

14. Profit forecast

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

15. Group borrowings

The Group does not have any borrowings as at 31 December 2011.

16. Material litigation

There is no material litigation as at the date of this report since the date of the last annual statement of financial position.

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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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 trusts : management of unit trust funds

a) Segment reporting

	Investment holding		Life insurance business		Cumulative 12 months ended 31 December				Total			
	2011		2010		2011		2010		2011		2010	
	RM'000	RM'000	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	-	-	487,905	467,016	-	-	-	-	-	-	487,905	467,016
b) Investment income	9,904	10,349	137,932	133,311	154	87	249	136	136	148,239	143,883	
c) Fee income	-	-	-	-	103	3	1,312	1,241	1,241	1,415	1,244	
Total external revenue	9,904	10,349	625,837	600,327	257	90	1,561	1,377	1,377	637,559	612,143	
Inter-segment revenue												
a) Rental income	842	839	365	273	-	-	-	-	-	1,207	1,112	
b) Fee income/(expenses)	1,462	1,530	(5,549)	(5,028)	6,453	5,860	-	-	-	2,366	2,362	
Total inter-segment revenue	2,304	2,369	(5,184)	(4,755)	6,453	5,860	-	-	-	3,573	3,474	
Total operating revenue	12,208	12,718	620,653	595,572	6,710	5,950	1,561	1,377	1,377	641,132	615,617	
Profit/(loss) from operations	9,476	7,292	75,709	74,470	1,605	1,687	(1,775)	(1,261)	(1,261)	85,015	82,188	
Segment assets	472,947	492,363	3,526,447	3,488,628	7,074	5,141	13,739	10,583	10,583	4,020,207	3,996,715	
Segment liabilities	42,600	40,682	3,191,231	3,215,674	1,407	681	676	324	324	3,235,914	3,257,361	

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18. Operating segments (continued)

b) Reconciliation of reportable segments

	Cumulative 12 months ended	
	31.12.2011	31.12.2010
	RM'000	RM'000
Operating revenue		
Total operating revenue for reportable segments	641,132	615,617
Elimination of inter-segment revenue	(3,573)	(3,474)
Consolidated operating revenue	637,559	612,143
	As at	As at
	31.12.2011	31.12.2010
	RM'000	RM'000
Segment assets		
Total assets for reportable segments	4,020,207	3,996,715
Elimination of inter-segment assets	(244,484)	(304,912)
Consolidated assets	3,775,723	3,691,803
Segment liabilities		
Total liabilities for reportable segments	3,235,914	3,257,361
Elimination of inter-segment liabilities	(36,002)	(101,145)
Consolidated liabilities	3,199,912	3,156,216

19. Review of performance

Total operating revenue	3 months ended		Cumulative 12 months ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RM'000	RM'000	RM'000	RM'000
Business Segments				
Investment holding	2,903	3,229	12,208	12,718
Life insurance business	178,173	174,965	620,653	595,572
Asset management	1,738	1,598	6,710	5,950
Unit trusts	406	381	1,561	1,377
Total operating revenue for reportable segments	183,220	180,173	641,132	615,617
Elimination of inter-segment revenue	(892)	(753)	(3,573)	(3,474)
Total	182,328	179,420	637,559	612,143

Profit/(loss) from operations	3 months ended		Cumulative 12 months ended	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	RM'000	RM'000	RM'000	RM'000
Business Segments				
Investment holding	2,291	3,191	9,476	7,292
Life insurance business	17,999	20,675	75,709	74,470
Asset management	(147)	746	1,605	1,687
Unit trusts	(469)	37	(1,775)	(1,261)
Total	19,674	24,649	85,015	82,188

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19. Review of performance (continued)

Financial Year 2011 vs Financial Year 2010

The Group recorded operating revenue of RM637.6 million for the year ended 31 December 2011 (FY2011), an increase of 4.1% or RM25.5 million compared to the corresponding financial year 31 December 2010 (FY2010) of RM612.1 million. The Group's profit before tax was RM85.1 million for FY 2011, RM2.9 million higher compared to the corresponding FY2010 of RM82.2 million.

Performance of the respective operating business segments are as follows:

Investment Holding – Operating revenue of the investment holding was slightly lower in FY2011 as compared to FY2010 mainly due to lower investment income during the current year. However, profit before tax was higher mainly due to fair value gain on investment property and decrease in the management expenses.

Life Insurance Business – Operating revenue of the life insurance business was higher mainly from higher gross premium earned particularly from the investment-linked business and higher investment income during the current year. Profit before tax was also higher mainly contributed by the higher investment income and net realised gains during the year.

Asset Management business – Operating revenue improved in FY2011 as compared to the prior year mainly due to higher management fee income earned on higher Asset-under-Management. Nevertheless, profit before tax was slightly lower in FY2011 as compared to FY2010 as there were higher management expenses in the current year arising from higher IT system expenses.

Unit Trusts business – Operating revenue improved in FY2011 mainly driven by higher net management fee income earned on higher Asset-under-Management. However, profit before tax was lower due to higher management expenses.

4th Quarter 2011 vs 4th Quarter 2010

The Group recorded operating revenue of RM182.3 million for the quarter ended 31 December 2011 (Q42011); an increase of RM2.9 million as compared to the corresponding financial quarter ended 31 December 2010 (Q42010) of RM179.4 million. The Group's profit before tax was RM19.7 million for Q42011, RM4.9 million lower as compared to the corresponding Q42010 of RM24.6 million.

Performance of the respective operating business segments are as follows:

Investment Holding – Operating revenue of the investment holding was lower in Q42011 as compared to Q42010 mainly due to lower investment income during the current quarter. As a result, profit before tax was reported lower in the current quarter.

Life Insurance Business – Operating revenue of the life insurance business was higher mainly attributable to higher gross premium earned particularly from the investment-linked business during the current quarter but partially offset by lower investment income. Profit before tax was lower due to lower investment income and lower net realised gain during the current quarter.

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19. Review of performance (continued)

Asset Management business – Operating revenue improved in Q42011 as compared to Q42010 mainly attributable to higher management fee income on higher Asset-under-Management. Nevertheless, the business reported a loss before tax in the current quarter due to the timing of recognition of certain IT system expenses in Q42011.

Unit Trusts business – Operating revenue improved in Q42011 mainly driven by higher net management fee income earned from managing higher Asset-under-Management. However, the business segment reported a loss in the current quarter due to higher management expenses incurred. In Q42010, the business segment reported profit before tax arising from write-back of accrued expenses.

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

The Group attained lower profit before tax of RM19.7 million for the current quarter under review as compared to the preceding quarter ended 30 September 2011 of RM20.4 million. The decrease of RM0.7 million was mainly due to lower investment earnings in the current quarter.

21. Net earned premiums

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

	3 months ended		Cumulative 12 months ended	
	<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2010</u>
	RM'000	RM'000	RM'000	RM'000
First year premium	19,129	22,327	62,179	67,918
Renewal year premium	119,351	111,018	408,349	382,101
Single premium	1,633	2,389	6,795	6,478
Total	<u>140,113</u>	<u>135,734</u>	<u>477,323</u>	<u>456,497</u>

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22. Investment income

	3 months ended		Cumulative 12 months ended	
	<u>31.12.2011</u> RM'000	<u>31.12.2010</u> RM'000	<u>31.12.2011</u> RM'000	<u>31.12.2010</u> RM'000
<u>Financial assets at FVTPL</u>				
<u>- designated upon initial recognition</u>				
Interest/profit income	3,833	3,420	14,654	13,621
Dividend/distribution income				
- equity securities quoted in Malaysia	2,650	2,694	7,077	5,970
Accretion of discounts, net of amortisation of premiums	946	1,506	2,299	2,461
<u>AFS financial assets</u>				
Interest/profit income	16,639	14,960	63,667	57,552
Dividend/distribution income				
- equity securities quoted in Malaysia	5,614	7,870	20,907	21,641
- equity securities unquoted in Malaysia	-	35	315	89
Accretion of discounts, net of amortisation of premiums	936	379	4,348	5,329
<u>Loans and receivables</u>				
Interest/profit income	5,242	5,472	21,844	22,572
Accretion of discounts, net of amortisation of premiums	561	532	2,201	2,088
Rental income	875	1,113	3,795	4,163
<u>Cash and bank balances</u>				
Interest/profit sharing income	1,620	2,301	7,531	8,622
	38,916	40,282	148,638	144,107
Less : Investment expenses	(123)	(82)	(399)	(224)
	<u>38,793</u>	<u>40,200</u>	<u>148,239</u>	<u>143,883</u>

23. Other operating expenses

	3 months ended		Cumulative 12 months ended	
	<u>31.12.2011</u> RM'000	<u>31.12.2010</u> RM'000	<u>31.12.2011</u> RM'000	<u>31.12.2010</u> RM'000
Foreign exchange loss	8	25	8	1,724
Interest on agent's bond	9	10	41	36
Tax on investment income of Life fund and investment-linked funds	3,362	5,785	9,433	16,516
	<u>3,379</u>	<u>5,820</u>	<u>9,482</u>	<u>18,276</u>

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24. Profit before taxation

	3 months ended		Cumulative	
	31.12.2011 RM'000	31.12.2010 RM'000	31.12.2011 RM'000	31.12.2010 RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	234	158	863	608
Depreciation of property and equipment	431	446	1,705	1,746
Investment income (Note 22)	(38,793)	(40,200)	(148,239)	(143,883)
(Recovery)/impairment loss on insurance receivables	(322)	(248)	(55)	8
Foreign exchange gain	(439)	-	(1,020)	-
Foreign exchange loss	8	25	8	1,724
Net realised losses/(gains)				
- realised losses/(gains) on disposal of investments	5,431	(30,305)	(67,526)	(64,204)
- realised losses/(gains) on disposal of property and equipment	4	(62)	4	(62)
	5,435	(30,367)	(67,522)	(64,266)
Net fair value (gains)/losses				
- fair value gains on investment properties	(3,013)	(3,491)	(3,013)	(3,491)
- fair value (gains)/losses on investments	(28,338)	(4,885)	22,477	(25,371)
- Impairment loss on quoted equities	5,117	-	5,117	-
	(26,234)	(8,376)	24,581	(28,862)

Other than the above, there were no gain or loss on derivatives and exceptional items for the current quarter and financial year ended 31 December 2011.

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	3 months ended		Cumulative 12 months ended	
	<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2010</u>
	RM'000	RM'000	RM'000	RM'000
In respect of current period:				
- Current tax	1,998	2,481	15,621	15,026
- Deferred tax	2,678	2,507	2,321	2,216
	<u>4,676</u>	<u>4,988</u>	<u>17,942</u>	<u>17,242</u>
In respect of prior periods:				
Under/(over) provision in respect of prior periods	-	969	(294)	592
	<u>4,676</u>	<u>5,957</u>	<u>17,648</u>	<u>17,834</u>

The income tax for the Group is calculated based on the tax rate of 25% (2010: 25%) of the estimated assessable profit for the financial year. The income tax for the Life fund of the insurance business is calculated based on the tax rate of 8% (2010: 8%) of the assessable investment income, net of allowable deductions for the financial year.

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.

	3 months ended		Cumulative 12 months ended	
	<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2010</u>
	RM'000	RM'000	RM'000	RM'000
Profit before taxation	<u>19,674</u>	<u>24,649</u>	<u>85,015</u>	<u>82,188</u>
Taxation at Malaysian statutory tax rate of 25%	4,918	6,162	21,253	20,547
Section 110B tax credit set off	(2,683)	(625)	(5,063)	(3,066)
Under/(over) provision in respect of prior periods	-	969	(294)	592
Expenses not deductible for tax purposes	527	(234)	1,146	509
Reversal of deferred tax asset recognised in prior year	2,809	-	2,809	-
Income not subject to tax	(895)	(315)	(2,203)	(748)
Tax expense	<u>4,676</u>	<u>5,957</u>	<u>17,648</u>	<u>17,834</u>

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26. Derivatives

Included in the fair value through profit and loss financial assets in the prior financial year end is an Equity Call Option ("ECO") with a remaining one year maturity period.

This option has matured during the current quarter ended 31 December 2011 and there is no outstanding derivative as at the date of this report.

27. Earnings per share

(a) Basic earnings per share

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

		3 months ended		Cumulative 12 months ended	
		<u>31.12.2011</u>	<u>31.12.2010</u>	<u>31.12.2011</u>	<u>31.12.2010</u>
Net profit attributable to shareholders	(RM'000)	14,998	18,692	67,367	64,354
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>7.41</u>	<u>9.24</u>	<u>33.29</u>	<u>31.80</u>

(b) Diluted earnings per share

There is no dilution in earnings per share as there are no dilutive potential ordinary shares as at 31 December 2011.

28. Insurance contract liabilities

The insurance contract liabilities as at the date of the statement of financial position comprise the following:

	<u>As at 31.12.2011</u> RM'000	<u>As at 31.12.2010</u> RM'000
Actuarial liabilities	2,196,474	1,922,955
Unallocated surplus	62,461	262,646
Fair value reserve	152,297	168,392
Foreign currency translation reserve on investment-linked policyholders' account	(7,449)	(10,084)
Investment-linked policyholders' account	<u>373,481</u>	<u>409,432</u>
	<u>2,777,264</u>	<u>2,753,341</u>

Deferred tax liabilities associated with the unallocated surplus of the Life fund upon transfer to Shareholders' fund as recommended by the Appointed Actuary, are included within the unallocated surplus as at the end of the financial year.

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29. Cash and cash equivalents

The cash and cash equivalents comprise the following:

	As at 31.12.2011 RM'000	As at 31.12.2010 RM'000
Shareholders and others	4,669	3,362
Non Investment-linked business	16,526	19,876
Investment-linked business	1,067	1,916
	<u>22,262</u>	<u>25,154</u>

30. Disclosure of realised and unrealised profits

Pursuant to the directive and guidance issued by Bursa Securities, the breakdown of the Group's retained profits into realised and unrealised profits is analysed as follows:

	As at 31.12.2011 RM'000	As at 31.12.2010 RM'000
Total retained profits of the Group:		
- Realised	423,521	384,418
- Unrealised	11,163	10,219
	<u>434,684</u>	<u>394,637</u>
Consolidation adjustments	16,756	16,756
Total retained profits as per statement of financial position	<u>451,440</u>	<u>411,393</u>

The analysis of realised and unrealised profits is made reference to the Guidance On Special Matter No. 1 "Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Securities Listing Requirements" issued by the Malaysian Institute of Accountants on 20 December 2010.

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
21 February 2012

Chin Mun Yee
Joint Secretary