

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



(Incorporated in Hong Kong with limited liability)
(Stock Code: 966)

ANNOUNCEMENT – ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors of China Insurance International Holdings Company Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Revenue			
Gross premiums written and policy fees	4	25,003,796	17,933,997
Less: Premiums ceded to reinsurers and retrocessionaires		(730,318)	(277,403)
Net premiums written and policy fees		24,273,478	17,656,594
Change in unearned premium provisions, net of reinsurance		(64,853)	(7,912)
Net earned premiums and policy fees		24,208,625	17,648,682
Net investment income	5(a)	3,394,339	1,888,401
Net realized investment (losses)/gains	5(b)	(1,048,781)	4,277,786
Net unrealized investment (losses)/gains and impairment	5(c)	(2,065,072)	505,578
Net exchange loss		(119,197)	(31,121)
Other income	6	84,563	64,933
Total revenue		24,454,477	24,354,259
Benefits, losses and expenses			
Net policyholders' benefits	7(a)	(6,248,410)	(5,062,155)
Net commission expenses	7(b)	(2,561,811)	(1,997,156)
Administrative and other expenses		(3,798,238)	(2,228,343)
Change in life insurance funds, net of reinsurance		(11,742,512)	(11,849,470)
Goodwill impairment	16	(73,276)	-
Total benefits, losses and expenses		(24,424,247)	(21,137,124)
Profit from operations		30,230	3,217,135
Share of losses of associates		(115,848)	(57,760)
Finance costs	8(a)	(183,383)	(148,467)
(Loss)/profit before taxation	8	(269,001)	3,010,908
Income tax credit/(charge)	11(a)	63,240	(553,711)
(Loss)/profit after taxation		(205,761)	2,457,197
Attributable to:			
Equity holders of the Company	12	(299,715)	1,549,072
Minority interests		93,954	908,125
		(205,761)	2,457,197
Dividends payable to equity holders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	13	-	141,527
		<i>cents</i>	<i>cents</i>
(Loss)/earnings per share attributable to the equity holders of the Company	14		
Basic		(21.2)	110.2
Diluted		(21.2)	108.3

The accompanying notes form an integral part of this annual results.

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

(Expressed in Hong Kong dollars)

	Note	2008 \$'000	2007 \$'000
Assets			
Statutory deposits	25	995,330	653,239
Fixed assets			
- Investment properties	15(a)	76,719	78,560
- Property and equipment	15(a)	2,664,533	1,313,147
- Prepaid lease payments	15(c)	535,213	-
		3,276,465	1,391,707
Goodwill	16	364,845	228,185
Interest in associates	18	134,382	530,436
Deferred tax assets	31(b)	22,353	2,648
Investments in debt and equity securities	19(a)	56,863,866	40,502,185
Amounts due from group companies	20(a)	11,455	17,488
Insurance debtors	21	1,026,222	616,540
Reinsurers' share of insurance contract provisions	22	1,421,962	376,740
Other debtors	23	2,071,499	1,431,352
Tax recoverable	31(a)	1,640	-
Pledged deposits at banks	24	102,453	97,417
Deposits at banks with original maturity more than three months		6,691,122	4,631,977
Cash and cash equivalents	26	7,831,795	5,137,635
		80,815,389	55,617,549
Liabilities			
Life insurance funds	27	52,787,213	38,529,656
Unearned premium provisions	28	3,456,749	893,924
Provision for outstanding claims	29	4,468,829	2,496,932
Investment contract liabilities	30	235,891	157,421
Deferred tax liabilities	31(b)	641,860	949,031
Interest-bearing notes	32	5,376,028	2,960,377
Securities sold under repurchase agreements	36	4,206,880	-
Amounts due to group companies	20(b)	492	46
Insurance creditors	33	740,139	394,116
Other creditors	34	1,572,505	1,046,389
Current taxation	31(a)	59,246	85,999
Insurance protection fund	35	30,310	7,976
		73,576,142	47,521,867
Net assets		7,239,247	8,095,682

CONSOLIDATED BALANCE SHEET (Continued)*as at 31 December 2008**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2008 \$'000	2007 \$'000
Capital and reserves attributable to the Company's equity holders			
Share capital	37	71,086	70,764
Reserves	38(a)	4,525,533	5,614,862
		4,596,619	5,685,626
Minority interests		2,642,628	2,410,056
Total equity		7,239,247	8,095,682

The accompanying notes form an integral part of this annual results.

BALANCE SHEET

as at 31 December 2008

(Expressed in Hong Kong dollars)

	<i>Note</i>	2008 \$'000	2007 \$'000
Assets			
Fixed assets	15(b)	206	172
Investments in subsidiaries	17	2,377,599	1,653,359
Interest in associates	18	6,937	580,474
Investments in debt and equity securities	19(b)	571,825	290,845
Deferred tax assets	31(b)	5,549	-
Amounts due from group companies	20(a)	459,651	443,651
Other debtors	23	11,591	51,167
Deposits at banks with original maturity more than three months		24,325	160,531
Cash and cash equivalents	26	251,778	622,159
		3,709,461	3,802,358
Liabilities			
Deferred tax liabilities	31(b)	-	157
Amounts due to group companies	20(b)	1,592,641	1,363,388
Other creditors	34	8,184	9,312
Current taxation	31(a)	-	10,893
		1,600,825	1,383,750
Net assets		2,108,636	2,418,608
Capital and reserves			
Share capital	37	71,086	70,764
Reserves	38(b)	2,037,550	2,347,844
Total equity		2,108,636	2,418,608

The accompanying notes form an integral part of this annual results.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	<i>Note</i>	Total equity attributable to: Equity holders of the Company \$'000	Minority interests \$'000	Total \$'000
Balance at 1 January 2008		5,685,626	2,410,056	8,095,682
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	38(a)	147,704	163,464	311,168
Revaluation increase on acquisition of additional interest in an associate	43	16,655	-	16,655
Net changes in fair value of available-for-sale securities, net of deferred tax	38(a)	(866,543)	(351,117)	(1,217,660)
Net loss recognized directly in equity		(702,184)	(187,653)	(889,837)
(Loss)/profit for the year	38(a)	(299,715)	93,954	(205,761)
Total recognized loss for the year		(1,001,899)	(93,699)	(1,095,598)
Capital contributions made to a subsidiary		-	48,114	48,114
Dividend paid	38(a)	(141,454)	-	(141,454)
Movements in equity arising from capital transactions with equity holders:				
- Shares issued under Share Option Scheme	37	322	-	322
- Net share premium received and share option exercised	38(a)	17,184	-	17,184
Transfer to retained profits on disposal of revoked shares for Share Award Scheme	38(a)	(5,052)	-	(5,052)
Changes in share held for Share Award Scheme	38(a)	14,359	-	14,359
Equity-settled share-based transactions	38(a)	27,533	-	27,533
Arising on acquisition of a subsidiary	43	-	278,157	278,157
Balance at 31 December 2008		4,596,619	2,642,628	7,239,247

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*
for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	<i>Note</i>	Total equity attributable to: Equity holders of the Company \$'000	Minority interests \$'000	Total \$'000
Balance at 1 January 2007		<u>4,178,319</u>	<u>1,404,322</u>	<u>5,582,641</u>
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	38(a)	153,371	145,015	298,386
Net changes in fair value of available-for-sale securities, net of deferred tax	38(a)	<u>(114,187)</u>	<u>(130,705)</u>	<u>(244,892)</u>
Net income recognized directly in equity		39,184	14,310	53,494
Profit for the year	38(a)	<u>1,549,072</u>	<u>908,125</u>	<u>2,457,197</u>
Total recognized income for the year		<u>1,588,256</u>	<u>922,435</u>	<u>2,510,691</u>
Capital contributions made to a subsidiary		-	83,299	83,299
Movements in equity arising from capital transactions with equity holders:				
- Shares issued under Share Option Scheme	37	451	-	451
- Net share premium received	38(a)	26,941	-	26,941
Changes in share held for Share Award Scheme	38(a)	(111,147)	-	(111,147)
Equity-settled share-based transactions	38(a)	<u>2,806</u>	<u>-</u>	<u>2,806</u>
Balance at 31 December 2007		<u>5,685,626</u>	<u>2,410,056</u>	<u>8,095,682</u>

The accompanying notes form an integral part of this annual results.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

(Expressed in Hong Kong dollars)

	<i>Note</i>	2008 \$'000	2007 \$'000
Operating activities			
(Loss)/profit before taxation		(269,001)	3,010,908
Adjustments for:			
- Depreciation		126,021	64,301
- Deficit/(surplus) on revaluation of investment properties		1,841	(5,533)
- Loss on disposal of investment properties		-	182
- Goodwill impairment		73,276	-
- Employee share-based compensation benefits		29,626	7,853
- Finance costs		183,383	148,467
- Dividend income		(1,254,361)	(670,654)
- Net interest income		(2,137,169)	(1,192,654)
- Share of losses of associates		115,848	57,760
- Net (gain)/loss on sale of fixed assets		(26)	136
- Net realized and unrealized losses/(gains) on listed and unlisted debt and equity securities		2,802,566	(4,776,765)
- Net realized and unrealized gains on derivative financial instruments		-	(1,248)
- Impairment on available-for-sale equity investments		309,446	-
Operating loss before changes in working capital		(18,550)	(3,357,247)

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*
for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	<i>Note</i>	2008 \$'000	2007 \$'000
Decrease/(increase) in insurance and other debtors		325,871	(627,003)
Increase in insurance and other creditors		233,402	600,140
Decrease/(increase) in amounts due from group companies		6,033	(10,452)
Increase/(decrease) in amounts due to group companies		446	(367)
Increase in provision for outstanding claims		421,792	310,766
(Increase)/decrease in reinsurers' share of insurance contract provisions		(156,874)	15,167
Increase in investment contract liabilities		78,470	41,740
Increase in life insurance funds		14,257,557	14,123,284
Increase in unearned premium provisions		132,741	40,956
Increase/(decrease) in insurance protection fund		16,613	(2,409)
Increase in loans and advances		(104,322)	(160,246)
Payment for purchase of shares for Share Award Scheme		(6,663)	(111,147)
Proceeds from disposal of shares for Share Award Scheme		15,970	-
Cash generated from operations		15,202,486	10,863,182
Hong Kong Profits Tax paid and payment for purchase of tax reserve certificate		(55,261)	(41,496)
Tax paid outside Hong Kong		(10,601)	(37)
Tax paid		(65,862)	(41,533)
Net cash generated from operating activities		15,136,624	10,821,649

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*
for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	<i>Note</i>	2008 \$'000	2007 \$'000
Investing activities			
Increase in pledged deposits at banks		(5,036)	(3,741)
Increase in statutory deposits		(45,447)	(105,796)
(Increase)/decrease in deposits at banks with original maturity more than three months		(1,869,049)	5,873
Payment for purchase of debt securities classified as loans and receivable		(1,893,663)	(256,306)
Payment for purchase of held-to-maturity debt securities		(19,579,016)	(432,463)
Proceeds from redemption of held-to-maturity debt securities		357,563	267,602
Payment for purchase of securities available-for-sale and designated at fair value through profit or loss		(25,552,210)	(22,733,852)
Proceeds from sale of securities available-for-sale and designated at fair value through profit or loss		30,009,112	13,999,866
Proceeds received from dealing in derivative		(4)	-
Proceeds from sale of investment properties		-	32,868
Interest income received		1,279,486	1,358,221
Dividend income received		1,254,361	670,653
Increase/(decrease) in securities sold under repurchase agreements		4,206,880	(2,490,366)
Payment for purchase of fixed assets		(948,892)	(275,035)
Prepayment for lease payment		(434,862)	-
Proceeds from sale of fixed assets		3,100	883
Capital injection to associates		(129,191)	(143,420)
Decrease/(increase) in amounts due from associates		179	(163)
Acquisition of subsidiary	43	763,517	-
Net cash used in investing activities		(12,583,172)	(10,105,176)

CONSOLIDATED CASH FLOW STATEMENT (Continued)
for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	<i>Note</i>	2008 \$'000	2007 \$'000
Financing activities			
Proceeds from shares issued		15,413	22,346
Proceeds from interest-bearing notes issued		2,324,556	-
Capital contributions from minority interests of a subsidiary		48,114	83,299
Interest paid		(239,109)	(433,343)
Dividend paid		(141,454)	-
Net cash generated/(used in) from financing activities		2,007,520	(327,698)
Effect of changes in exchange rates		(1,866,812)	(1,332,150)
Net increase/(decrease) in cash and cash equivalents		2,694,160	(943,375)
Cash and cash equivalents at 1 January	26	5,137,635	6,081,010
Cash and cash equivalents at 31 December	26	7,831,795	5,137,635

The accompanying notes form an integral part of this annual results.

NOTES TO THE ANNUAL RESULTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates.

The functional currency of the major entities in the Group is RMB, the currency of the primary economic environment in which the respective entities in the Group operate. For the convenience of the consolidated financial statements users, the consolidated financial statements are presented in Hong Kong dollars.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- (i) investment properties;
- (ii) investments in debt and equity securities classified as available-for-sale;
- (iii) investments in debt and equity securities designated at fair value through profit or loss; and

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 47.

(c) Classification of contracts

(i) Insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (“the policyholder”) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (“the insured event”) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk that is transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party of the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or have expired.

(ii) Investment contracts

Investment contracts are with or without discretionary participation features (“DPF”). A DPF is a contractual right held by a policyholder to receive, as a supplement to guaranteed minimum benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the Group’s discretion and are contractually based on:

- (i) the performance of a specified pool of contracts or a specified type of contract;
- (ii) realized and/or unrealized investment returns on a specified pool of assets held by the issuing entity; or
- (iii) the profit or loss of the issuing entity.

Deposits collected under investment contracts with DPF are classified as insurance contracts. Deposits collected under investment contracts without DPF are classified as investment contracts. For the recognition of investment contracts without DPF, please refer to note 1(d)(vi).

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(d) Recognition and measurement of contracts

(i) Recognition of gross premiums written

Gross premiums written in respect of reinsurance contracts reflect business written during the year, and exclude any taxes or duties based on premiums. Premiums written include estimates for “pipeline” premiums and adjustments to estimates of premiums written in previous years.

Gross premiums written in respect of life insurance contracts other than unit-linked insurance contracts, are recognized as revenue when due. Gross premiums written in respect of unit-linked insurance contracts are recognized when the corresponding units are allocated to policyholders.

Gross premiums written in respect of property and casualty insurance contracts are recognized as revenue when the amount is determined, which is generally when the risk commences.

(ii) Life insurance funds

Provisions for life insurance contracts other than unit-linked insurance contracts are determined using the net premium approach, in which the assumptions used in assessing the actuarial valuation of life insurance funds reflect management’s assessment of the most likely outcome of future policy cash flows subject to reasonable and prudent allowances, and a deferral approach on the acquisition costs related to the acquisition of new business, including but not limited to commissions, underwriting, marketing and policy issue expenses, in so far as there are sufficient margins in the future premiums of the new policies to fund the amortization of the acquisition costs over the life time of the policies. Profits are expected to emerge on a level basis over the life of the insurance contracts.

(iii) Unearned premium provisions

The unearned premium provisions comprise the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed on a time-apportioned basis, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(iv) Provision for outstanding claims

Provision for outstanding claims comprises provision for the Group’s estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Provision for outstanding claims is assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provision for outstanding claims is not discounted. Adjustments to claims provisions established in prior years are reflected in the consolidated financial statements of the year in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(d) Recognition and measurement of contracts *(continued)*

(v) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to determine if the life insurance funds are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the life insurance funds are used in performing these tests. Any deficiency is recognized in the income statement for the current year.

Provision is made for unexpired risks arising from reinsurance contracts and property and casualty insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premium provisions in relation to such policies. The unexpired risk provision is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premium provisions and the unexpired risk provision.

(vi) Investment contracts liabilities

Investment contracts without DPF are recognized as financial liabilities in the balance sheet when the Group becomes a party to their contractual provisions. Contributions received from policyholders are not recognized in the consolidated income statement but are accounted for as deposits.

All investment contracts issued by the Group are initially recognized at fair value and thereafter stated at amortized cost using effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(vii) Policyholders' benefits

Policyholders' benefits include maturities, annuities, surrenders, claims and claims handling expenses, and policyholder bonuses allocated in anticipation of a bonus declaration. Maturity and annuity claims are recognized as an expense when due for payment. Surrender claims are recognized when paid. Claims are recognized when notified but not settled and claims incurred but not reported at the reporting date.

(viii) Embedded derivatives in insurance contracts

The Group has taken advantage of the exemptions available in HKFRS 4, Insurance Contracts, not to separate and fair value a policyholder's option to surrender an insurance contract (or investment contracts with DPF) for a fixed amount (or for an amount based on a fixed amount and an interest rate) even if the exercise price differs from the carrying amount of the host insurance liability.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(d) Recognition and measurement of contracts *(continued)*

(ix) Reinsurance

The Group cedes insurance/reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded insurance/reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of balances due from reinsurers, as well as other receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Premiums ceded and reinsurers' share of claims paid and the related payables and receivables are separately accounted for in the consolidated income statements and the consolidated balance sheets and not net off against the related gross balances.

Amounts due/recoverable under reinsurance and the reinsurers' share of insurance contract provisions are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurers. The impairment loss is calculated following the same method used for financial assets held at amortized cost and the carrying amount is reduced through the use of an allowance account similar to insurance receivables.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(o)). The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

(f) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, less any identified impairment loss. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognized for the year (see note 1(o)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(f) Associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognized at the date of acquisition is recognized as goodwill. From 1 January 2005 onwards, the Group has discontinued amortization of goodwill and such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the income statement.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(o)). The results of associates are accounted for by the Company on the basis of dividends received or receivable.

(g) Business combinations and goodwill

(i) Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(g) Business combinations and goodwill *(continued)*

(ii) Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalized goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortization from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see note 1(o)).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(o)).

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

(h) Investments in debt and equity securities

Investments in debt and equity securities are initially measured at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Attributable transaction costs are included in the fair value, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

(i) Securities designated at fair value through profit or loss

Securities designated at fair value through profit or loss are financial instruments which on initial recognition are designated by the Group as being at fair value through profit or loss.

A security is classified in this category if it meets the criteria set out below, and is so designated by management. The Group designates securities at fair value through profit or loss if:

- (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(h) Investments in debt and equity securities *(Continued)*

- (2) the securities form a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and where information about these instruments are provided internally on that basis to the Group's key management personnel; or
- (3) the securities form part of a contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets so designated are recognized initially at fair value with transaction costs taken directly to the income statement. At each balance sheet date subsequent to initial recognition, financial assets designated at fair value through profit or loss are measured at fair value, with gains and losses from changes in the fair value of such assets are recognized in the income statement as they arise.

(ii) Held-to-maturity securities

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortized cost using effective interest method less impairment losses (see note 1(o)).

(iii) Available-for-sale securities

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, except foreign exchange gains and losses resulting from changes in the amortized cost of monetary items such as debt securities which are recognized directly in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement and included in "net investment income". When these investments are derecognized or impaired (see note 1(o)), the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

(vi) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses (see note 1(o)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (see note 1(o)).

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(h) Investments in debt and equity securities *(Continued)*

All regular way purchases or sales of investments in debt and equity securities are recognized and derecognized on a trade date basis.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount of the financial asset on initial recognition.

(i) Sales and repurchase agreements

Securities sold under repurchase agreements represent short-term finance arrangements secured by the securities sold. The securities remain on the balance sheet and a liability is recorded in respect of the consideration received. Interest is calculated based upon the effective interest method. The securities sold under repurchase agreements are carried in the balance sheet at amortized cost.

(j) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in the income statement. Rental income from investment properties is accounted for as described in note 1(v)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it was held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

(k) Property and equipment

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Land and buildings are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Other fixed assets 3 – 6 years

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(l) Prepaid lease payments and buildings under construction

When the leasehold land is in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortized over a straight-line basis over the lease term. The amortization is charged to income statement before the commencement of the construction. During the construction period, the amortization charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

(m) Insurance debtors, other debtors and amounts due from group companies

Insurance debtors, other debtors and amounts due from group companies are initially recognized at fair value and thereafter stated at amortized cost using effective interest method less allowance for impairment of bad and doubtful debts (see note 1(o)), except where the receivables are interest-free or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(n) Insurance creditors and amounts due to group companies

Insurance creditors and amounts due to group companies are initially recognized at fair value and thereafter stated at amortized cost using effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

The effective interest method is a method of calculating the amortized cost of a financial liabilities and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liabilities, or, where appropriate, a shorter period to the net carrying amount of the liability on initial recognition.

(o) Impairment of assets

(i) Impairment of financial assets other than those at fair value through profit or loss

Financial assets other than those at fair value through profit or loss are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets *(continued)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale securities, the cumulative loss that has been recognized directly in equity is removed from equity and is recognized in the income statement. The amount of the cumulative loss that is recognized in the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in the income statement.

(i) Impairment of financial assets other than those at fair value through profit or loss

Impairment losses recognized in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognized directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in the income statement.

- For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When an insurance or other debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property and equipment;
- reinsurers' share of insurance contract provisions;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Recognition of impairment losses

An impairment loss is recognized in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(iii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(o) Impairment of assets *(continued)*

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognized.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(s) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(t) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(v) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

(i) Gross premiums written from insurance contracts

The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 1(d).

(ii) Policy fee income from investment contracts

Fees are recognized in the period in which the services are provided.

(iii) Commission income

Commission income is recognized as revenue on the effective commencement or renewal dates of the related reinsurance contracts.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognized in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(v) Revenue recognition *(continued)*

(v) Income from asset management, insurance intermediary and pension businesses

Income from asset management, insurance intermediary and pension businesses are recognized when the service is rendered.

(vi) Dividends

Dividend income from investments is recognized when the shareholder's right to receive payment is established.

(vii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated into the functional currency of respective entities in the Group at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of respective entities in the Group at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of respective entities in the Group using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency of respective entities in the Group using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into the Group's presentation currency (i.e. Hong Kong dollars) at the exchange rates approximately the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity. Goodwill arising on acquisition of a foreign operation is translated into Hong Kong dollars at the foreign exchange rate prevailing at the balance sheet date.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(x) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the income statement.

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in the income statement.

(y) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(z) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(aa) Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(aa) Related parties *(continued)*

- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of an entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(ab) Share based payment transactions

(i) Share Options Scheme and Share Award Scheme

The fair value of share options and awarded shares granted to employees in an equity-settled share based payment transaction is recognized as an employment cost with a corresponding increase in the employee share-based compensation reserve within equity. In respect of share options, the fair value is measured at grant date using the Black Scholes pricing model, taking into account the terms and conditions upon which the options were granted. In respect of awarded shares, the fair value is based on the closing price at the grant date and any directly attributable incremental costs. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options and awarded shares, the total estimated fair value of the share options and awarded shares is spread over the vesting period, taking into account the probability that the share options and awarded shares will vest.

During the vesting period, the number of share options and awarded shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options and awarded shares that vest (with a corresponding adjustment to the employee share-based compensation reserve).

The equity amount for the share options is recognized in the employee share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

(ab) Share based payment transactions *(continued)*

(ii) Shares held for Share Award Scheme

Where the shares of the Company are acquired under the Share Award Scheme, the consideration paid, including any directly attributable incremental costs, is presented as “Shares held for Share Award Scheme” and deducted from total equity.

When the award shares are transferred to the awardees upon vesting, the related weighted average cost of the awarded shares vested are credited to "shares held for Share Award Scheme", and the related employment costs of the award shares vested are debited to the employee share-based compensation reserve. The difference between the related weighted average cost and the related employment costs of the award shares is transferred to retained profits.

Where the shares held for Share Award Scheme are revoked and the revoked shares are disposed of the related gain or loss is transferred to retained profits, and no gain or loss is recognized in the income statement.

Where the cash or non-cash dividend distribution declared in respect of the shares held for Share Award Scheme, the cash or fair value of the non-cash dividend is transferred to retained profits, and no gain or loss is recognized in the income statement.

(ac) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group’s internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these consolidated financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balance, corporate and financing expenses.

1 SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

(Continued)

(ad) Jointly controlled assets

When a group entity undertakes its activities with other parties, constituted as jointly controlled assets, the Group's share of the jointly controlled assets are recognized in the consolidated financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred, are recognized when it is probable that the economic benefits associated with the transaction will flow to/from the Group.

CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 49).

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT

(a) Risk management objectives, policies and processes for mitigating insurance risk

The Group is principally engaged in the underwriting of reinsurance business around the world, and life insurance business and property and casualty business in the PRC. The Group's management of insurance and financial risk is a critical aspect of the business. Insurance risks are managed through the application of various policies and procedures relating to underwriting, pricing, claims and reinsurance as well as experience monitoring.

The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyzes and scenario analyzes.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any year may vary from those estimated using established statistical techniques.

(b) Underwriting strategy

Reinsurance business

The Group's reinsurance portfolio is made up of a mix of business spreading across different geographic regions and classes, with emphasis towards Asian countries covering property damage, marine cargo and hull and miscellaneous non-marine classes. In addition to diversifying its underwriting portfolio, the Group does not actively seek acceptance of any liability reinsurance business from customers operating outside the Asia Pacific region, in particular, the United States of America. In the Asia Pacific region, where these are core-markets of the Group, liability reinsurance for motor, workers' compensation and general third party liability businesses are written on a limited scale in order to provide customers in the region with comprehensive reinsurance services.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(b) Underwriting strategy *(continued)*

Life insurance business

The Group operates its life insurance business in the PRC's life insurance market, offering a wide range of insurance products covering different types of individual and group life insurance, health insurance, accident insurance and annuity. With regard to the control of quality of the insurance policies underwritten, the Group has formulated strict operational procedures on underwriting and claims settlement to control risks on insurance underwriting.

Property and casualty insurance business

The Group is engaged in the underwriting of property and casualty insurance business in the PRC. The Group focuses its property and casualty insurance business towards the PRC's property and casualty insurance market by offering a wide range of insurance products covering different types of property insurance (including compulsory motor insurance), liability insurance, credit insurance, guarantee insurance business and short-term accident and health insurance and the related reinsurance business. The Group has formulated strict operational procedures on underwriting and claims settlement to control risks on insurance underwriting.

(c) Reinsurance strategy

The Group purchases reinsurance protection from other reinsurers in the normal course of business in order to limit the potential for losses arising from longer and concentrated exposures. In assessing the credit worthiness of reinsurers, the Group takes into account, among other factors, ratings and evaluation performed by recognized credit rating agencies, their claims-paying and underwriting track record, as well as the Group's past experience with them.

(d) Asset and liability matching

The objective of the Group's asset and liability management is to match the Group's assets with liabilities on the basis of duration. The Group actively manages its assets using an approach that balances quality, diversification, asset and liability matching, liquidity and investment return. The goal of the investment process is to maximize investment returns at a tolerable risk level, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

However, in respect of life insurance business, under the current regulatory and market environment in the PRC, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its life insurance liabilities. When the regulatory and market environment permits, the Group intends to gradually lengthen the duration of its assets. The Group monitors the duration gap between the assets and liabilities closely and prepares cash flow projection from assets and liabilities on a regular basis. Currently, the Group reduces the level of the asset-liability mismatch by:

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(d) Asset and liability matching *(continued)*

- * actively seeking to acquire longer dated fixed rate debt investments with an acceptable level of yield;
- * upon the maturity dates of fixed rate debt investments, rolling over the proceeds to longer dated fixed rate debt investments;
- * disposing of some of the shorter dated fixed rate debt investments, particularly those with lower yields, and rolling over the proceeds to longer dated fixed rate debt investments; and
- * investing in equities for the long term.

(e) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(e) **Insurance risk** *(continued)*

(i) *Reinsurance business*

Product features

The Group writes proportional and non-proportional reinsurance treaties and facultative reinsurance contracts primarily in Hong Kong and other Asian countries.

Reinsurance may take a relatively long period of time to finalize and settle claims for a given underwriting year. The speed of claims reporting and claims settlement is a function of the specific coverage provided, the jurisdiction, the specific policy provisions and the nature of underlying risks. There are numerous components underlying the general reinsurance business.

Management of risks

The key risk associated with reinsurance contracts are those relating to underwriting.

The Group maintains underwriting teams who are responsible for the underwriting and sales of the Group's reinsurance products. The team promoting a certain product to a customer has the requisite expertise to determine whether the Group can meet the specific requirement of the customer within the Group's risk appetite. All inward business is screened and analyzed by the underwriting staff. The decision to underwrite and the level of risk exposure accepted are determined by reference to the underwriting guideline setting out the types of business desired, and the maximum capacity per risk and per zone. Such criteria are determined by considering factors including the risk exposure, the pricing, the profit potential, the class of business, the marketing strategy, the retrocession facilities available and the market trends.

The Group also arranges retrocession facilities to manage the risk. The Group purchases mainly proportional retrocession treaties in respect of fire and marine cargo businesses. In addition, the Group is protected against catastrophic risk by means of a single whole-account catastrophe excess of loss retrocession facility.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(e) Insurance risk *(continued)*

Concentration of insurance risks

Concentration of risk arises from the accumulation of risks within a particular business line and geographic area. The Group's key methods in managing these risks are diversification of the business line and areas where the gross premiums are written. The tables below indicate the gross premiums written by business line and geographical distribution for the year ended 31 December 2008.

By business line:

	% to total gross premiums written	
	2008	2007
Proportional treaty	59.6%	55.9%
Non-proportional treaty	27.9%	32.1%
Facultative	12.5%	12.0%
	100.0%	100.0%

By geographical territory:

	% to total gross premiums written	
	2008	2007
Hong Kong & Macau	16.5%	18.8%
Mainland China (& Taiwan)	28.8%	23.8%
Japan	7.8%	6.8%
Rest of Asia	24.7%	27.1%
Europe	12.3%	14.9%
Others	9.9%	8.6%
	100.0%	100.0%

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(e) Insurance risk *(continued)*

(ii) Life insurance business

The features of major life insurance products are summarized below:

Product features

Term insurance

The Group writes term policies which pay out guaranteed benefits on death that are fixed in amounts and not at the discretion of the Group. The benefits are determined by the contract terms and are not directly affected by the performance of the underlying asset performance. The contracts include both individual and group schemes. The individual policies are long-term policies with guaranteed surrender value. Under the Group schemes, the rates are annually renewable and are not guaranteed.

Whole life insurance

The Group writes whole life policies which pay out guaranteed benefits on death. One individual whole life product also pays survival benefits every three years. All contracts have guaranteed surrender value.

Endowment insurance

The Group writes endowment policies which pay out guaranteed benefits on death or maturity at the end of the policy term. All contracts have guaranteed surrender value.

Annuity

The Group writes immediate and deferred annuity policies which pay out guaranteed survival benefits, some with a minimum guaranteed fixed period. All contracts have guaranteed surrender value before the pay out period starts.

Products with DPF

The Group writes with-profits whole life and endowment policies, where discretionary annual bonus and sometimes discretionary terminal bonus are offered. All contracts have guaranteed surrender value. Provisions are invested in a fund, the strategy of which is to invest mostly in fixed interest securities. The bonus payments are designed to distribute to policyholders the profits from investment, expense and mortality gains. The contracts provide more capital security to the policyholders than unit-linked contracts.

Unit linked insurance contracts

The Group writes unit-linked contracts that operate by investing the policyholders' premiums into pooled investment funds of the Group. The policyholders' share of the fund is represented by units. Individual policies are contracts with a fixed term where the policyholders are paid the sums assured upon death or total and permanent disability in addition to the account value. The account value depends on the investment performance of the underlying fund and the level of charges levied by the Group for policy administration fees, mortality and other charges.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(e) Insurance risk *(continued)*

Universal life insurance contracts

The Group writes fixed-term single-premium endowment contracts. Universal life contracts operate by investing the policyholders' premiums into a pooled investment fund of the Group. The Group at its discretion declares a monthly crediting rate to the policyholder accounts subject to the guaranteed minimum rate of the policy. The account values accrue interest at the crediting rate and monthly charges levied by the Group for policy administration. The Group at its discretion allocates excess investment gains generated from the pooled investment fund for future declaration to the policyholder accounts.

Guaranteed features

The main guaranteed features of life insurance products include:

Guaranteed interest rate

The guaranteed minimum interest rate in most products is not higher than the statutory maximum rate in the PRC. The rate is lower than the current market interest rate.

Guaranteed crediting rate

There is a guaranteed minimum crediting rate in the universal life product and an adjustable non-negative guaranteed rate for the Group's unit-linked deposit administration policy.

Guaranteed premium

There is a guarantee of premium in all of the long-term products. There is guarantee of premium for short-term products.

Guaranteed cash surrender values ("CSVs")

There are statutory minimum guaranteed CSVs for most of the Group's long-term products.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(e) Insurance risk (continued)

Concentration of insurance risks

Concentration risk is the risk of incurring a major loss as a result of having a significant mortality or other insurance coverage on a particular person or a group of persons due to the same event. The Group manages the concentration of insurance risks by way of reinsurance arrangements with a maximum retention risk of RMB500,000 per person in life and personal accident policies and RMB200,000 on critical illness insurance. In addition, the Group purchases catastrophe protection for losses arising from claims involving multiple lives from the same event. The maximum retention risk is RMB1 million for each and every loss occurrence, and the total coverage is RMB50 million for each and every loss occurrence. The Group purchases surplus treaties and proportional treaties to cover life, accident and long term health risks. In addition, an excess of loss reinsurance contract is applied for any insurance contract with significant sum insured.

The distribution of sum insured is summarized as follows:

<i>RMB'000</i>	Before reinsurance		After reinsurance	
	2008	2007	2008	2007
0-200	95.30 %	95.61%	95.65 %	95.96%
201-500	3.78 %	3.47%	4.35 %	4.04%
501-750	0.63 %	0.71%	-	-
751-1,000	0.14 %	0.05%	-	-
1,001-1,500	0.04 %	0.06%	-	-
1,501-2,000	0.02 %	0.02%	-	-
2,001-2,500	0.01 %	0.01%	-	-
>2,500	0.08 %	0.07%	-	-
	100.00 %	100.00%	100.00 %	100.00%

Management of risks

The key risk associated with life insurance contracts is the risk of potential loss arising with respect to a particular insurance product as a result of actual market conditions and loss experience being different from the assumed market conditions and loss experience used when designing and pricing the product.

The Group manages the risks by centralising the product design function at the head office level, headed by the chief appointed actuary and senior management in other key functional departments. Standards and guidelines are established to ensure that the risks associated with particular products are within the acceptable level. The pricing method, the solvency requirement, the profit margin, the loss experience, etc., are key considerations in designing a product.

In addition, the underwriting and claim processing departments strictly follow the established standards and procedures.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(e) Insurance risk (continued)

(iii) Property and casualty insurance business

The features of major property and casualty insurance products are summarized below:

Product features

Motor

It is the Group's strategy not to underwrite business related to high risk types of motor such as vehicles for public transportation, vehicles carrying dangerous products and vehicles not owned by local citizens. The maximum insured sum of underwriting motor and third party liability business at the branches is RMB3,000,000.

Non-marine

The insurance risk is controlled by the branches' compliance with the procedure manual which was launched and approved by TPI's senior management annually. To limit the net exposure, the Group arranged an excess of loss reinsurance protection for non-marine business.

Marine

The risk accumulation generally arises from underwriting risks in any one vessel or shipment. It is the Group's strategy not to underwrite business related to high risk types of marine such as cross-boarder marine or cargo and cargo business for North-East Asia. Net exposure of risk per vessel is limited by arranging surplus treaty and monitored by TPI's senior management regularly.

Concentration of insurance risks

Within the insurance process, concentration of risk may arise where a particular event or series of events could impact heavily upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The concentration of insurance risk before and after reinsurance by classes of business is summarized below, with reference to premiums written in 2008. The premiums written as shown in the table below include both the pre-acquisition and post-acquisition results of TPI.

	2008			
	Gross written premiums \$'000	Premiums ceded to reinsurers \$'000	Net written premiums \$'000	Ceding ratio %
Motor	3,761,126	262,932	3,498,194	7.0%
Marine	199,795	85,813	113,982	43.0%
Non-marine	817,618	450,744	366,874	55.1%
Total	4,778,539	799,489	3,979,050	16.7%

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(f) Management of risks

The Group delegates underwriting authority to experienced underwriters. Each underwriting department has an underwriting manual for each class of business. The underwriting manual is approved by the Underwriting Committee and specifies the authority of underwriters at each level. Each underwriting manual states clearly the minimum gross premium per policy, the maximum sum insured per policy and the aggregate exposure per zone as well as the probable maximum loss which underwriters at each level can underwrite. Risks that exceed the underwriting authority of the head of the underwriting department have to be reviewed and approved by the Underwriting Committee. For claims handling, there is a procedures manual that lays down the operational procedures and controls required to mitigate the insurance risk.

The Group also arranges both treaty reinsurance and facultative reinsurance in accordance with international practice. Treaty reinsurance provides automatic reinsurance cover under specific reinsurance contract terms and conditions. Facultative reinsurance is reinsurance of individual risk. Each contract is arranged separately. The choice of reinsurance contract depends on market conditions, market practice and the nature of business. Facultative reinsurance is arranged when an individual risk is not covered by treaty reinsurance or exceeds treaty reinsurance capacity.

(g) Financial risk

Transactions in financial instruments and insurance assets/liabilities may result in the Group assuming financial risks. These include market risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Group manages these risks.

There is no significant change in the Group's exposures to risk and how they arise, nor the Group's objectives, policies and processes for managing each of these risks.

(i) Market risk

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, equity prices or foreign currency exchange rates.

(a) Interest rate risk

Interest rate risk is risk to the earnings or market value of a fixed-rate financial instrument due to uncertain future market interest rates.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(g) **Financial risk** *(continued)*

(i) *Market risk (continued)*

The Group monitors this exposure through periodic reviews of its financial instrument. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio are modelled and reviewed periodically.

A decrease of 50 basis points in interest rates of the debt investments classified as available-for-sale and designated at fair value through profit or loss (excluding the balance for unit-linked insurance contracts), with all other variables held constant, would increase the Group's total equity by approximately 1.5% of the total investments held by the Group as at 31 December 2008 (2007: 2.2%). Most of the Group's fixed rate debt investments that are designated at fair value through profit or loss are held for unit-linked insurance contracts; consequently the Group's profit is not significantly sensitive to any change in value of these debt investments arising from interest rate change.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2007. The Group does not have significant amount of floating-rate financial instruments.

(b) **Equity price risk**

The Group has a portfolio of marketable equity securities, which is carried at fair value and is exposed to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices.

The Group manages the equity price risk by investing in a diverse portfolio of high quality and liquid securities.

The equity securities (including direct equity securities and equity investment funds), other than those held for unit-linked insurance contracts were carried at a fair value of \$4,323.97 million (2007: \$8,494.99 million), representing 6.3% (2007: 18.2%) of total investments held by the Group excluding those held for unit-linked insurance contracts.

Since most of the equity securities, other than those held for unit-linked insurance contracts, are classified as available-for-sale financial assets, the Group's profit is not significantly sensitive to any change in value of the equities securities.

A 10% increase/decrease in market value of the equities securities classified as available-for-sale and designated at fair value through profit or loss (excluding the balance for unit-linked insurance contracts) and held by the Group as at 31 December 2008, with all other variables held constant, would increase the Group's total equity /decrease the Group's total equity and the profit after tax by approximately \$432.40 million (2007: total equity of \$849.50 million). Most of the Group's equities securities that are designated at fair value through profit or loss are held for unit-linked insurance contracts; consequently the Group's profit is not significantly sensitive to any change in value of these equities securities arising from market value change.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(g) Financial risk (continued)

(c) Foreign exchange risk

In respect of the reinsurance business, premiums are received mainly in HKD and USD and also in a number of Asian currencies which follow closely the USD currency rate movement. The Group aims to hold assets in these currencies in broadly similar proportion to its insurance liabilities.

In respect of the life insurance and property and casualty insurance business, premiums are received in RMB and the insurance regulation in the PRC requires insurers to hold RMB assets.

The following table presents the Group's carrying values of financial and insurance assets and liabilities in the consolidated balance sheet in HKD equivalent by major currencies:

	2008				
	RMB \$'000	USD \$'000	HKD \$'000	Other foreign currencies \$'000	Total \$'000
Financial assets:					
Statutory deposits	975,180	-	20,150	-	995,330
Investments in debt and equity securities	53,963,322	2,207,361	507,007	186,176	56,863,866
- debt securities	47,703,969	2,097,011	68,981	158,130	50,028,091
- equity securities	6,259,353	110,350	438,026	28,046	6,835,775
Amounts due from group companies	4,546	-	6,896	13	11,455
Other debtors	1,983,041	52,381	27,992	8,085	2,071,499
Pledged deposits at bank	-	102,453	-	-	102,453
Deposits at bank with original maturity more than three months	5,513,275	700,354	471,040	6,453	6,691,122
Cash and cash equivalents	5,413,848	1,306,739	604,991	506,217	7,831,795
	<u>67,853,212</u>	<u>4,369,288</u>	<u>1,638,076</u>	<u>706,944</u>	<u>74,567,520</u>
Insurance assets:					
Insurance debtors	559,694	64,433	278,078	124,017	1,026,222
Reinsurers' share of insurance contract provisions	1,078,185	38,150	275,922	29,705	1,421,962
	<u>1,637,879</u>	<u>102,583</u>	<u>554,000</u>	<u>153,722</u>	<u>2,448,184</u>

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(g) Financial risk (continued)

	2008				
	RMB \$'000	USD \$'000	HKD \$'000	Other foreign currencies \$'000	Total \$'000
Financial liabilities:					
Investment contract liabilities	235,891	-	-	-	235,891
Interest-bearing notes	4,025,452	1,350,576	-	-	5,376,028
Securities sold under repurchase agreements	4,206,880	-	-	-	4,206,880
Amounts due to group companies	488	-	4	-	492
Insurance protection fund	30,310	-	-	-	30,310
	<u>8,499,021</u>	<u>1,350,576</u>	<u>4</u>	<u>-</u>	<u>9,849,601</u>
Insurance liabilities:					
Life insurance funds	52,787,213	-	-	-	52,787,213
Unearned premium provisions	2,826,441	14,046	614,233	2,029	3,456,749
Provision for outstanding claims	2,541,340	432,306	755,647	739,536	4,468,829
Insurance creditors	684,663	2,947	42,017	10,512	740,139
	<u>58,839,657</u>	<u>449,299</u>	<u>1,411,897</u>	<u>752,077</u>	<u>61,452,930</u>

(g) Financial risk (continued)

47

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(g) Financial risk (continued)

(ii) Credit risk

Credit risk is the risk of economic loss resulting from the failure of one of the obligors to make any payment of principal or interest when due.

The Group is exposed to credit risks primarily associated with bank deposits, insurance debtors, investments in debt securities, reinsurance arrangements with reinsurers and other debtors etc.

The maximum exposure of the Group to credit risk in the event of the counterparties' failure to perform their obligations as at the balance sheet date is the carrying amount of the assets as shown in the table below:

	2008		2007	
	\$'000	% of Total	\$'000	% of Total
Statutory deposits and deposits with banks	15,620,700	22.3%	10,520,268	25.9%
Investments in debt securities	50,028,091	71.3%	27,746,829	68.2%
Reinsurers' share of insurance contract provisions	1,421,962	2.0%	376,740	0.9%
Insurance debtors	1,026,222	1.5%	616,540	1.5%
Other debtors	2,071,499	2.9%	1,431,352	3.5%
	70,168,474	100.0%	40,691,729	100.0%

To reduce the credit risk associated with the investment in debt securities, the Group has established detailed credit control policy. In addition, the risk level of the various investment sectors is continuously monitored with the investment mix adjusted accordingly. In respect of the debt securities invested by reinsurance business, the Group restricts investments in debt securities with international credit ratings generally not below the investment grade, i.e. BBB or higher, except for certain sovereign rated securities. In respect of the debt securities invested by life insurance and property and casualty insurance business, the investment procedures manual, which is managed by an investment committee, includes the minimum acceptable domestic credit rating of the issuers as required by the CIRC. Any non-compliance or violation of the manual will be followed up and rectification action will be taken immediately.

In assessing the need for impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

The carrying amount of the financial assets set out in the consolidated balance sheet after deducting any impairment allowance represent the maximum exposure to credit risk at the balance sheet date.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(g) Financial risk (continued)

(iii) Liquidity risk

The Group has to meet daily calls on its cash resources, notably from claims arising from its reinsurance contracts, life insurance contracts and property and casualty insurance contracts. There is, therefore, a risk that cash will not be available to settle liabilities when due.

The Group manages this risk by formulating policies and general strategies of liquidity management to ensure that the Group can meet its financial obligations in normal circumstances and that an adequate stock of high-quality liquid assets is maintained in order to contain the possibility of a liquidity crisis.

Apart from liquidity management and regulatory compliance, the Group always strives to maintain a comfortable liquidity cushion as a safety net for coping with unexpected large funding requirements and to maintain a contingency plan to be enacted should there be a company specific crisis.

The following table presents amounts the contractual undiscounted cash flows of the Group's financial liabilities and the estimated timing of undiscounted cash flows arising from liabilities under insurance and investment contracts. A maturity analysis prepared on the basis of the earliest possible contractual repayment date (assuming that all surrender and transfer options are exercised) would result in all insurance and investment contracts being presented as falling due with one year or less.

	1 year or less \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Total undiscounted cashflows \$'000	Carrying value at 31 December \$'000
At 31 December 2008					
Interest-bearing notes	300,799	4,260,332	3,365,787	7,926,918	5,376,028
Life insurance funds	41,062	(3,590,549)	120,251,626	116,702,139	52,787,213
Unearned premium provisions	3,219,418	237,331	-	3,456,749	3,456,749
Provision for outstanding claims	2,715,318	1,314,621	438,890	4,468,829	4,468,829
Investment contract liabilities	235,891	-	-	235,891	235,891
Securities sold under repurchase agreements	4,206,880	-	-	4,206,880	4,206,880
Insurance creditors	740,139	-	-	740,139	740,139
Insurance protection fund	30,310	-	-	30,310	30,310
	11,489,817	2,221,735	124,056,303	137,767,855	71,302,039
At 31 December 2007					
Interest-bearing notes	150,464	601,856	3,117,530	3,869,850	2,960,377
Life insurance funds	(487,430)	1,042,688	91,528,364	92,083,622	38,529,656
Unearned premium provisions	893,924	-	-	893,924	893,924
Provision for outstanding claims	842,621	1,156,138	498,173	2,496,932	2,496,932
Investment contract liabilities	157,421	-	-	157,421	157,421
Insurance creditors	394,116	-	-	394,116	394,116
Insurance protection fund	7,976	-	-	7,976	7,976
	1,959,092	2,800,682	95,144,067	99,903,841	45,440,402

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT *(Continued)*

(h) Capital management

The Group's key business operations are its reinsurance business, the life insurance business and the property and casualty insurance business, which are conducted through its subsidiaries. The Group manages its capital to ensure that the entities conducting the reinsurance, life insurance businesses and the property and casualty insurance business will be able to meet statutory solvency requirements in the jurisdictions in which they operate. The Group's capital management initiatives also strive to maintain a surplus for future business expansion opportunities. The Group's overall capital management strategy remains unchanged from the prior year. The statutory solvency requirements for reinsurance business and life insurance business and property and casualty insurance business are set out in the Hong Kong Insurance Companies Ordinance and Solvency Reporting Standards for Insurance Companies issued by CIRC, respectively. The Group's capital includes the components of total equity and interest-bearing notes. The solvency margins ratios of the reinsurance business, life insurance business and property and casualty insurance business were as follows:

	At 31 December 2008	At 31 December 2007
Reinsurance business	631%	748%
Life insurance business	218%	215%
Property and casualty insurance business	173%	129%

(i) Risks associated with investment contracts without DPF

There is no material difference in risk exposure between life insurance contracts and investment contracts without DPF, except that the mortality risk of investment contracts is generally insignificant.

(j) Claims development

Claims development information for the reinsurance business and property and casualty insurance business is disclosed below in order to illustrate the insurance risk inherent in the Group. The tables provide a review of current estimates of the cumulative claims and demonstrate how the estimated claims have changed at subsequent reporting or underwriting year-ends. The estimates increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(j) Claims development (continued)

Analysis of claims development – gross of reinsurance of CIRE

For the year ended 31 December 2008

	Underwriting year					Total
	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	2008 \$'000	
Unearned premium provisions at the end of underwriting year (note)	348,831	366,916	523,080	560,466	604,802	
Estimate of cumulative claims (note)						
At the end of underwriting year	601,563	903,974	617,028	813,412	1,050,587	
One year later	838,792	1,251,632	928,909	1,157,883	-	
Two years later	838,594	1,283,002	885,898	-	-	
Three years later	823,576	1,186,049	-	-	-	
Four years later	747,259	-	-	-	-	
Estimate of cumulative claims	747,259	1,186,049	885,898	1,157,883	1,050,587	5,027,676
Cumulative payments to date	(661,700)	(991,416)	(563,910)	(471,292)	(42,784)	(2,731,102)
Liabilities recognized in the balance sheet	85,559	194,633	321,988	686,591	1,007,803	2,296,574
Liabilities in respect of underwriting years 2003 and earlier						246,042
Total liabilities included in the balance sheet	85,559	194,633	321,988	686,591	1,007,803	2,542,616

For the year ended 31 December 2007

	Underwriting year					Total
	2003 \$'000	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	
Unearned premium provisions at the end of underwriting year (note)	352,003	348,831	366,916	523,080	560,466	
Estimate of cumulative claims (note)						
At the end of underwriting year	545,205	601,563	903,974	617,028	813,412	
One year later	674,007	838,792	1,251,632	928,909	-	
Two years later	629,880	838,594	1,283,002	-	-	
Three years later	612,981	823,576	-	-	-	
Four years later	591,425	-	-	-	-	
Estimate of cumulative claims	591,425	823,576	1,283,002	928,909	813,412	4,440,324
Cumulative payments to date	(451,641)	(637,656)	(929,010)	(408,512)	(26,626)	(2,453,445)
Liabilities recognized in the balance sheet	139,784	185,920	353,992	520,397	786,786	1,986,879
Liabilities in respect of underwriting years 2002 and earlier						362,733
Total liabilities included in the balance sheet	139,784	185,920	353,992	520,397	786,786	2,349,612

Note: Excluding the unearned premiums provision/claims liabilities for the life reinsurance business.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(j) Claims development (continued)

Analysis of claims development – net of reinsurance of CIRe

For the year ended 31 December 2008

	Underwriting year					Total
	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	2008 \$'000	
Unearned premium provisions at the end of underwriting year (note)	308,983	335,296	470,207	497,576	528,539	
Estimate of cumulative claims (note)						
At the end of underwriting year	478,807	763,448	568,075	752,167	922,454	
One year later	651,938	1,056,084	849,375	994,736	-	
Two years later	664,027	1,081,483	807,483	-	-	
Three years later	651,331	994,160	-	-	-	
Four years later	592,374	-	-	-	-	
Estimate of cumulative claims	592,374	994,160	807,483	994,736	922,454	4,311,207
Cumulative payments to date	(519,441)	(815,403)	(509,679)	(424,430)	(36,227)	(2,305,180)
Liabilities recognized in the balance sheet	72,933	178,757	297,804	570,306	886,227	2,006,027
Liabilities in respect of underwriting years 2003 and earlier						199,907
Total liabilities included in the balance sheet	72,933	178,757	297,804	570,306	886,227	2,205,934

For the year ended 31 December 2007

	Underwriting year					Total
	2003 \$'000	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	
Unearned premium provisions at the end of underwriting year (note)	302,131	308,983	335,296	470,207	497,576	
Estimate of cumulative claims (note)						
At the end of underwriting year	447,317	478,807	763,448	568,075	752,167	
One year later	571,361	651,938	1,056,084	849,375	-	
Two years later	534,180	664,027	1,081,483	-	-	
Three years later	520,703	651,331	-	-	-	
Four years later	502,894	-	-	-	-	
Estimate of cumulative claims	502,894	651,331	1,081,483	849,375	752,167	3,837,250
Cumulative payments to date	(383,644)	(499,061)	(759,885)	(369,879)	(29,775)	(2,042,244)
Liabilities recognized in the balance sheet	119,250	152,270	321,598	479,496	722,392	1,795,006
Liabilities in respect of underwriting years 2002 and earlier						293,998
Total liabilities included in the balance sheet	119,250	152,270	321,598	479,496	722,392	2,089,004

Note: Excluding the unearned premiums provision/claims liabilities for the life reinsurance business.

2 INSURANCE, FINANCIAL AND CAPITAL RISK MANAGEMENT (Continued)

(j) Claims development (continued)

Analysis of claims development – gross of reinsurance of TPI

For the year ended 31 December 2008

	Accident year					
	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	2008 \$'000	Total \$'000
<i>Estimate of cumulative claims</i>						
At the end of accident year	446,303	919,502	1,217,424	1,901,570	3,138,746	
One year later	440,697	856,037	1,105,458	1,792,027	-	
Two years later	426,344	752,007	1,254,443	-	-	
Three years later	430,659	851,727	-	-	-	
Four years later	428,155	-	-	-	-	
Estimate of cumulative claims	428,155	851,727	1,254,443	1,792,027	3,138,746	7,465,098
Cumulative payments to date	(421,810)	(817,364)	(1,181,372)	(1,593,813)	(1,756,274)	(5,770,633)
Liabilities recognized in the balance sheet	6,345	34,363	73,071	198,214	1,382,472	1,694,465
Liabilities in respect of accident years 2003 and earlier						(42,417)
Total liabilities included in the balance sheet	6,345	34,363	73,071	198,214	1,382,472	1,652,048

Analysis of claims development – net of reinsurance of TPI

For the year ended 31 December 2008

	Accident year					
	2004 \$'000	2005 \$'000	2006 \$'000	2007 \$'000	2008 \$'000	Total \$'000
<i>Estimate of cumulative claims</i>						
At the end of accident year	354,435	704,159	921,899	1,520,294	2,381,620	
One year later	345,127	667,407	942,630	1,434,394	-	
Two years later	333,722	629,316	959,771	-	-	
Three years later	333,616	662,356	-	-	-	
Four years later	331,471	-	-	-	-	
Estimate of cumulative claims	331,471	662,356	959,771	1,434,394	2,381,620	5,769,612
Cumulative payments to date	(326,342)	(636,343)	(913,502)	(1,288,542)	(1,469,112)	(4,633,841)
Liabilities recognized in the balance sheet	5,129	26,013	46,269	145,852	912,508	1,135,771
Liabilities in respect of accident years 2003 and earlier						(52,070)
Total liabilities included in the balance sheet	5,129	26,013	46,269	145,852	912,508	1,083,701

3 SEGMENT REPORTING

Segment information is presented in respect of the Group's businesses and geographical segments. Business segment information is chosen as the primary reporting format.

By business segments

The Group comprises the following main business segments:

- Reinsurance business;
- Life insurance business;
- Property and casualty insurance business (resulting from the acquisition of TPI during 2008); and
- Corporate and other businesses which comprise the asset management business, insurance intermediary business, pension business, and financial and corporate assets.

3 SEGMENT REPORTING (Continued)

By business segments (continued)

a. Segmental income statement for 2008

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Revenue					
Gross premiums written	1,838,999	21,207,791	1,949,904	-	24,996,694
Policy fees	-	7,102	-	-	7,102
	<u>1,838,999</u>	<u>21,214,893</u>	<u>1,949,904</u>	<u>-</u>	<u>25,003,796</u>
Less: Premiums ceded to reinsurers and retrocessionaires	(270,337)	(110,221)	(349,760)	-	(730,318)
Net premiums written and policy fees	<u>1,568,662</u>	<u>21,104,672</u>	<u>1,600,144</u>	<u>-</u>	<u>24,273,478</u>
Change in unearned premium provisions, net of reinsurance	<u>(33,760)</u>	<u>(43,413)</u>	<u>12,320</u>	<u>-</u>	<u>(64,853)</u>
Net earned premiums and policy fees	<u>1,534,902</u>	<u>21,061,259</u>	<u>1,612,464</u>	<u>-</u>	<u>24,208,625</u>
Net investment income (note (i))	178,668	3,051,633	62,797	101,241	3,394,339
Net realized investment losses (note (ii))	(96,962)	(834,451)	(18,102)	(99,266)	(1,048,781)
Net unrealized investment losses and impairment (note (iii))	(179,606)	(1,686,805)	-	(198,661)	(2,065,072)
Net exchange gain/(loss)	(38,094)	(81,657)	(1,593)	2,147	(119,197)
Other income	29,807	16,873	(6,384)	167,423	207,719
Inter-segment transactions	<u>(30,000)</u>	<u>(8,663)</u>	<u>-</u>	<u>(84,493)</u>	<u>(123,156)</u>
	<u>1,398,715</u>	<u>21,518,189</u>	<u>1,649,182</u>	<u>(111,609)</u>	<u>24,454,477</u>
Benefits, losses and expenses					
Net policyholders' benefits	(887,761)	(4,288,569)	(1,072,080)	-	(6,248,410)
Net commission expenses	(396,008)	(2,026,973)	(138,830)	-	(2,561,811)
Administrative and other expenses	(65,150)	(2,671,614)	(749,396)	(435,234)	(3,921,394)
Change in life insurance funds, net of reinsurance	-	(11,742,512)	-	-	(11,742,512)
Goodwill impairment	-	-	-	(73,276)	(73,276)
Inter-segment transactions	<u>9,789</u>	<u>103,704</u>	<u>1,000</u>	<u>8,663</u>	<u>123,156</u>
	<u>(1,339,130)</u>	<u>(20,625,964)</u>	<u>(1,959,306)</u>	<u>(499,847)</u>	<u>(24,424,247)</u>
(Loss)/profit from operations	<u>59,585</u>	<u>892,225</u>	<u>(310,124)</u>	<u>(611,456)</u>	<u>30,230</u>
Share of losses of associates	-	-	-	(115,848)	(115,848)
Finance costs	-	(98,176)	(5,034)	(80,173)	(183,383)
(Loss)/profit before taxation	<u>59,585</u>	<u>794,049</u>	<u>(315,158)</u>	<u>(807,477)</u>	<u>(269,001)</u>
Income tax credit/(charge)	<u>(7,739)</u>	<u>86,376</u>	<u>(16,007)</u>	<u>610</u>	<u>63,240</u>
(Loss)/profit after taxation	<u>51,846</u>	<u>880,425</u>	<u>(331,165)</u>	<u>(806,867)</u>	<u>(205,761)</u>
Minority interests	-	(439,742)	163,919	181,869	(93,954)
(Loss)/profit attributable to equity holders	<u>51,846</u>	<u>440,683</u>	<u>(167,246)</u>	<u>(624,998)</u>	<u>(299,715)</u>

3 SEGMENT REPORTING (Continued)

a. Segmental income statement for 2008 (continued)

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (i): Net investment income					
Interest income from debt securities					
- Held-to-maturity	76,213	421,655	3,566	793	502,227
- Available-for-sale	35,885	1,103,068	24,672	27,349	1,190,974
- Designated at fair value through profit or loss	9,261	8,494	-	2,181	19,936
- Loans and receivables	-	42,523	1,611	-	44,134
Dividend income from direct equity securities					
- Available-for-sale	12,641	23,509	7	8,448	44,605
- Designated at fair value through profit or loss	1,600	6,826	-	458	8,884
Dividend income from equity investment funds					
- Available-for-sale	-	339,746	4,097	-	343,843
- Designated at fair value through profit or loss	-	816,871	17	1,794	818,682
Dividend income from composite investment funds					
- Available-for-sale	186	-	-	-	186
- Designated at fair value through profit or loss	2,943	-	-	35,218	38,161
Bank deposits and other interest income	37,130	368,224	28,909	25,229	459,492
Rentals receivable from investment properties	2,809	-	-	-	2,809
Interest expenses on securities sold under repurchase agreements	-	(79,283)	(82)	(229)	(79,594)
	<u>178,668</u>	<u>3,051,633</u>	<u>62,797</u>	<u>101,241</u>	<u>3,394,339</u>
Note (ii): Net realized investment (losses)/gains					
Debt securities					
- Available-for-sale	-	(29,077)	14,346	(2,119)	(16,850)
- Designated at fair value through profit or loss	(1,281)	277,103	-	8,916	284,738
Direct equity securities					
- Available-for-sale	(95,306)	815,687	44,443	(85,517)	679,307
- Designated at fair value through profit or loss	(375)	(709,342)	-	(5,670)	(715,387)
Equity investment funds					
- Available-for-sale	-	(358,958)	(76,891)	-	(435,849)
- Designated at fair value through profit or loss	-	(829,864)	-	(6,336)	(836,200)
Composite investment funds					
- Designated at fair value through profit or loss	-	-	-	(8,540)	(8,540)
	<u>(96,962)</u>	<u>(834,451)</u>	<u>(18,102)</u>	<u>(99,266)</u>	<u>(1,048,781)</u>

3 SEGMENT REPORTING (Continued)

a. Segmental income statement for 2008(continued)

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (iii): Net unrealized investment (losses)/gains and impairment					
Debt securities					
- Designated at fair value through profit or loss	(36,235)	487	-	2,315	(33,433)
Direct equity securities					
- Designated at fair value through profit or loss	(25,351)	(317,017)	-	(8,147)	(350,515)
Equity investment funds					
- Designated at fair value through profit or loss	-	(1,276,157)	-	(1,742)	(1,277,899)
Composite investment funds					
- Designated at fair value through profit or loss	(10,366)	-	-	(81,572)	(91,938)
Deficit on revaluation of investment properties	(1,841)	-	-	-	(1,841)
Impairment on available-for-sale equities	(105,813)	(94,118)	-	(109,515)	(309,446)
	<u>(179,606)</u>	<u>(1,686,805)</u>	<u>-</u>	<u>(198,661)</u>	<u>(2,065,072)</u>

3 SEGMENT REPORTING (Continued)

b. Segmental balance sheet for 2008

	Reinsurance \$'000	Life insurance \$'000	2008 Property casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Statutory deposits	20,150	566,965	294,822	113,393	995,330
Investment properties	76,719	-	-	-	76,719
Property and equipment	4,286	2,076,231	494,556	89,460	2,664,533
Prepaid lease payments	-	434,862	100,351	-	535,213
Debt securities (note (i))	1,904,911	45,538,341	2,105,066	479,773	50,028,091
Direct equity securities (note (ii))	231,800	1,102,040	10,290	277,582	1,621,712
Equity investment funds (note (iii))	-	4,772,477	351,170	53	5,123,700
Composite investment funds (note (iv))	67,041	-	-	23,322	90,363
Cash and bank deposits	1,766,301	10,623,323	1,317,882	917,864	14,625,370
Goodwill	-	154,909	209,936	-	364,845
Interest in associates	-	4,526	-	129,856	134,382
Reinsurers' share of insurance contract provisions	413,078	69,940	938,944	-	1,421,962
Other segment assets	554,887	2,076,676	439,376	62,230	3,133,169
Total assets	5,039,173	67,420,290	6,262,393	2,093,533	80,815,389
Life insurance funds	-	52,787,213	-	-	52,787,213
Unearned premium provisions	613,329	397,415	2,446,005	-	3,456,749
Provision for outstanding claims	2,548,443	268,338	1,652,048	-	4,468,829
Investment contract liabilities	-	235,891	-	-	235,891
Interest-bearing notes	-	3,231,701	793,751	1,350,576	5,376,028
Securities sold under repurchase agreements	-	4,206,880	-	-	4,206,880
Deferred tax liabilities	403	626,179	15,248	30	641,860
Other segment liabilities	173,156	1,200,672	809,193	219,671	2,402,692
Total liabilities	3,335,331	62,954,289	5,716,245	1,570,277	73,576,142
Minority interests					2,642,628
Net assets attributable to the equity holders of the Company					4,596,619

3 SEGMENT REPORTING (Continued)

b. Segmental balance sheet for 2008 (continued)

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (i): Debt securities					
By category:					
- Held-to-maturity	1,338,632	19,222,471	426,476	16,568	21,004,147
- Available-for-sale	390,078	23,634,693	1,576,537	402,643	26,003,951
- Designated at fair value profit or loss	176,201	617,424	-	60,562	854,187
- Loans and receivables	-	2,063,753	102,053	-	2,165,806
	1,904,911	45,538,341	2,105,066	479,773	50,028,091
By class:					
- Central governments and central banks	131,344	19,204,888	1,128,548	58,601	20,523,381
- Public sector entities	50,973	-	-	-	50,973
- Banks and other financial institutions	1,425,131	8,465,891	616,477	327,800	10,835,299
- Corporate entities	286,468	17,867,562	360,041	93,372	18,607,443
- Others	10,995	-	-	-	10,995
	1,904,911	45,538,341	2,105,066	479,773	50,028,091
Note (ii): Direct equity securities					
By category:					
- Available-for-sale	194,664	1,034,857	10,290	270,911	1,510,722
- Designated at fair value profit or loss	37,136	67,183	-	6,671	110,990
	231,800	1,102,040	10,290	277,582	1,621,712
By class:					
- Banks and other financial institutions	140,054	-	-	96,979	237,033
- Corporate entities	87,566	1,102,040	10,290	180,603	1,380,499
- Others	4,180	-	-	-	4,180
	231,800	1,102,040	10,290	277,582	1,621,712

3 SEGMENT REPORTING (Continued)

b. Segmental balance sheet for 2008 (continued)

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (iii): Equity investment funds					
By category:					
- Available-for-sale	-	2,360,722	351,170	-	2,711,892
- Designated at fair value profit or loss	-	2,411,755	-	53	2,411,808
	-	4,772,477	351,170	53	5,123,700
By class:					
- Corporate entities	-	4,772,477	351,170	53	5,123,700
Note (iv): Composite investment funds					
By category:					
- Available-for-sale	38,182	-	-	-	38,182
- Designated at fair value profit or loss	28,859	-	-	23,322	52,181
	67,041	-	-	23,322	90,363
By class:					
- Banks and other financial institutions	-	-	-	23,322	23,322
- Corporate entities	67,041	-	-	-	67,041
	67,041	-	-	23,322	90,363

c. Other segmental information for 2008

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Capital expenditure	2,058	1,287,092	167,818	27,137	1,484,105
Depreciation	833	82,606	28,695	13,887	126,021
Significant non-cash expenses (other than depreciation and amortization)	217,700	1,768,462	1,593	196,514	2,184,269

3 SEGMENT REPORTING (Continued)

d. Segmental income statement for 2007

	2007			
	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Revenue				
Gross premiums written	1,681,212	16,245,249	-	17,926,461
Policy fees	-	7,536	-	7,536
	1,681,212	16,252,785	-	17,933,997
Less: Premiums ceded to reinsurers and retrocessionaires	(211,150)	(66,253)	-	(277,403)
Net premiums written and policy fees	1,470,062	16,186,532	-	17,656,594
Change in unearned premium provisions, net of reinsurance	(28,113)	20,201	-	(7,912)
Net earned premiums and policy fees	1,441,949	16,206,733	-	17,648,682
Net investment income (<i>note (i)</i>)	184,621	1,591,925	111,855	1,888,401
Net realized investment gains (<i>note (ii)</i>)	357,379	3,758,608	161,799	4,277,786
Net unrealized investment (losses)/ gains (<i>note (iii)</i>)	(11,869)	452,178	65,269	505,578
Net exchange gain/(loss)	61,191	(86,609)	(5,703)	(31,121)
Other income	(8,449)	31,505	188,292	211,348
Inter-segment transactions	-	(7,998)	(138,417)	(146,415)
	2,024,822	21,946,342	383,095	24,354,259
Benefits, losses and expenses				
Net policyholders' benefits	(995,224)	(4,066,931)	-	(5,062,155)
Net commission expenses	(351,659)	(1,645,497)	-	(1,997,156)
Administrative and other expenses	(91,071)	(1,901,470)	(382,217)	(2,374,758)
Change in life insurance funds, net of reinsurance	-	(11,849,470)	-	(11,849,470)
Inter-segment transactions	30,065	108,352	7,998	146,415
	(1,407,889)	(19,355,016)	(374,219)	(21,137,124)
Profit from operations	616,933	2,591,326	8,876	3,217,135
Share of profit/(losses) of associates	-	3	(57,763)	(57,760)
Finance costs	-	(68,449)	(80,018)	(148,467)
Profit before taxation	616,933	2,522,880	(128,905)	3,010,908
Income tax charge	(37,241)	(488,797)	(27,673)	(553,711)
Profit after taxation	579,692	2,034,083	(156,578)	2,457,197
Minority interests	-	(1,016,025)	107,900	(908,125)
Profit attributable to equity holders	579,692	1,018,058	(48,678)	1,549,072

3 SEGMENT REPORTING (Continued)

d. Segmental income statement for 2007 (continued)

	2007			
	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (i): Net investment income				
Interest income from debt securities				
- Held-to-maturity	64,850	-	324	65,174
- Available-for-sale	24,469	943,886	9,801	978,156
- Designated at fair value through profit or loss	11,379	3,395	6,976	21,750
- Loans and receivables	-	5,646	-	5,646
Dividend income from direct equity securities				
- Available-for-sale	8,195	11,925	5,430	25,550
- Designated at fair value through profit or loss	1,906	4,135	440	6,481
Dividend income from equity investment funds				
- Available-for-sale	-	256,304	-	256,304
- Designated at fair value through profit or loss	-	366,129	16,190	382,319
Dividend income from composite investment funds				
- Designated at fair value through profit or loss	3,182	-	19,485	22,667
Bank deposits and other interest income	68,214	285,832	53,209	407,255
Rentals receivable from investment properties	2,426	-	-	2,426
Interest expenses on securities sold under repurchase agreements	-	(285,327)	-	(285,327)
	<u>184,621</u>	<u>1,591,925</u>	<u>111,855</u>	<u>1,888,401</u>
Note (ii): Net realized investment gains				
Debt securities				
- Available-for-sale	-	(537)	-	(537)
- Designated at fair value through profit or loss	(343)	97,844	2,862	100,363
Direct equity securities				
- Available-for-sale	356,758	1,879,751	138,949	2,375,458
- Designated at fair value through profit or loss	(102)	485,659	7,434	492,991
Equity investment funds				
- Available-for-sale	-	710,944	-	710,944
- Designated at fair value through profit or loss	-	584,947	7,828	592,775
Composite investment funds				
- Designated at fair value through profit or loss	-	-	4,726	4,726
Derivative financial instruments	1,248	-	-	1,248
Investment properties	(182)	-	-	(182)
	<u>357,379</u>	<u>3,758,608</u>	<u>161,799</u>	<u>4,277,786</u>

3 SEGMENT REPORTING (Continued)

d. Segmental income statement for 2007 (continued)

	2007			
	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (iii): Net unrealized investment (losses)/gains				
Debt securities				
- Designated at fair value through profit or loss	(15,060)	55,656	661	41,257
Direct equity securities				
- Designated at fair value through profit or loss	(1,733)	56,882	1,200	56,349
Equity investment funds				
- Designated at fair value through profit or loss	-	339,640	39,457	379,097
Composite investment funds				
- Designated at fair value through profit or loss	(609)	-	23,951	23,342
Surplus on revaluation of investment properties	5,533	-	-	5,533
	<u>(11,869)</u>	<u>452,178</u>	<u>65,269</u>	<u>505,578</u>

3 SEGMENT REPORTING (Continued)

e. Segmental balance sheet for 2007

	2007			
	Reinsurance	Life	Corporate and other	Total
	\$'000	insurance	businesses	\$'000
		\$'000	\$'000	\$'000
Statutory deposits	12,475	533,970	106,794	653,239
Investment properties	78,560	-	-	78,560
Property and equipment	3,106	1,231,432	78,609	1,313,147
Debt securities (note (i))	1,734,132	25,690,527	322,170	27,746,829
Direct equity securities (note (ii))	638,930	5,833,575	527,947	7,000,452
Equity investment funds (note (iii))	-	5,493,209	121,747	5,614,956
Composite investment funds (note (iv))	90,841	-	49,107	139,948
Cash and bank deposits	1,795,332	6,942,180	1,129,517	9,867,029
Goodwill	-	154,909	73,276	228,185
Interest in associates	-	4,262	526,174	530,436
Reinsurers' share of insurance contract provisions	323,498	53,242	-	376,740
Other segment assets	587,619	1,362,481	117,928	2,068,028
Total assets	5,264,493	47,299,787	3,053,269	55,617,549
Life insurance funds	-	38,529,656	-	38,529,656
Unearned premium provisions	566,064	327,860	-	893,924
Provision for outstanding claims	2,349,612	147,320	-	2,496,932
Investment contract liabilities	-	157,421	-	157,421
Interest-bearing notes	-	1,601,910	1,358,467	2,960,377
Deferred tax liabilities	2,012	945,584	1,435	949,031
Other segment liabilities	175,574	1,158,751	200,201	1,534,526
Total liabilities	3,093,262	42,868,502	1,560,103	47,521,867
Minority interests				2,410,056
Net assets attributable to the equity holders of the Company				5,685,626

3 SEGMENT REPORTING (Continued)

e. Segmental balance sheet for 2007 (continued)

	2007			
	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (i): Debt securities				
By category:				
- Held-to-maturity	1,013,616	-	5,458	1,019,074
- Available-for-sale	572,333	25,094,065	281,146	25,947,544
- Designated at fair value through profit or loss	148,183	340,156	35,566	523,905
- Loans and receivables	-	256,306	-	256,306
	<u>1,734,132</u>	<u>25,690,527</u>	<u>322,170</u>	<u>27,746,829</u>
By class:				
- Central governments and central banks	181,608	13,529,672	5,458	13,716,738
- Public sector entities	100,723	-	-	100,723
- Banks and other financial institutions	980,447	2,911,758	282,760	4,174,965
- Corporate entities	441,368	9,249,097	33,952	9,724,417
- Others	29,986	-	-	29,986
	<u>1,734,132</u>	<u>25,690,527</u>	<u>322,170</u>	<u>27,746,829</u>
Note (ii): Direct equity securities				
By category:				
- Available-for-sale	569,548	4,168,794	504,826	5,243,168
- Designated at fair value through profit or loss	69,382	1,664,781	23,121	1,757,284
	<u>638,930</u>	<u>5,833,575</u>	<u>527,947</u>	<u>7,000,452</u>
By class:				
- Central governments and central banks	-	-	639	639
- Public sector entities	-	-	5,205	5,205
- Banks and other financial institutions	288,377	-	333,065	621,442
- Corporate entities	350,553	5,833,575	189,038	6,373,166
	<u>638,930</u>	<u>5,833,575</u>	<u>527,947</u>	<u>7,000,452</u>

3 SEGMENT REPORTING (Continued)

e. Segmental balance sheet for 2007 (continued)

	2007			
	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (iii): Equity investment funds				
By category:				
- Available-for-sale	-	2,220,712	-	2,220,712
- Designated at fair value through profit or loss	-	3,272,497	121,747	3,394,244
	-	5,493,209	121,747	5,614,956
By class:				
- Banks and other financial institutions	-	-	97,421	97,421
- Corporate entities	-	5,493,209	24,326	5,517,535
	-	5,493,209	121,747	5,614,956
Note (iv): Composite investment funds				
By category:				
- Available-for-sale	51,378	-	-	51,378
- Designated at fair value through profit or loss	39,463	-	49,107	88,570
	90,841	-	49,107	139,948
By class:				
- Banks and other financial institutions	-	-	49,107	49,107
- Corporate entities	90,841	-	-	90,841
	90,841	-	49,107	139,948

f. Other segmental information for 2007

	2007			
	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Capital expenditure	1,153	252,410	21,472	275,035
Depreciation	818	57,634	5,849	64,301
Significant non-cash income (other than depreciation and amortization)	50,570	350,549	59,566	460,685

3 SEGMENT REPORTING (Continued)

By geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segments assets and capital expenditure are based on the geographical location of the operations.

2008							
	Hong Kong and Macau \$'000	PRC (other than Hong Kong and Macau) \$'000	Japan \$'000	Rest of Asia \$'000	Europe \$'000	Rest of the world \$'000	Total \$'000
Gross premiums written and policy fees	304,000	23,694,824	143,424	453,699	226,924	180,925	25,003,796
Segment assets	6,314,046	74,501,343	-	-	-	-	80,815,389
Capital expenditure incurred during the year	2,349	1,481,756	-	-	-	-	1,484,105
2007							
	Hong Kong and Macau \$'000	PRC (other than Hong Kong and Macau) \$'000	Japan \$'000	Rest of Asia \$'000	Europe \$'000	Rest of the world \$'000	Total \$'000
Gross premiums written and policy fees	316,653	16,652,436	113,973	455,988	249,970	144,977	17,933,997
Segment assets	7,291,563	48,325,986	-	-	-	-	55,617,549
Capital expenditure incurred during the year	1,003	274,032	-	-	-	-	275,035

4 GROSS PREMIUMS WRITTEN AND POLICY FEES

Principal activities

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the underwriting of all classes of reinsurance business, direct life insurance business and property and casualty insurance business.

Apart from these, the Group also carries on asset management, insurance intermediary and pension businesses and, to support its insurance activities, holds money market, fixed income, equity and property investments.

Turnover represents gross premiums written and policy fees from the reinsurance business, life insurance business and property and casualty insurance business.

	2008				Total \$'000
	Reinsurance contracts \$'000	Life insurance contracts \$'000	Property and casualty Insurance contracts \$'000	Investment contracts \$'000	
Gross premiums written	1,838,999	21,207,791	1,949,904	-	24,996,694
Policy fees	-	-	-	7,102	7,102
	<u>1,838,999</u>	<u>21,207,791</u>	<u>1,949,904</u>	<u>7,102</u>	<u>25,003,796</u>

	2007			Total \$'000
	Reinsurance contracts \$'000	Life insurance contracts \$'000	Investment contracts \$'000	
Gross premiums written	1,681,212	16,245,249	-	17,926,461
Policy fees	-	-	7,536	7,536
	<u>1,681,212</u>	<u>16,245,249</u>	<u>7,536</u>	<u>17,933,997</u>

5 INVESTMENT INCOME

	2008 \$'000	2007 \$'000
Net investment income (note (a))	3,394,339	1,888,401
Net realized investment (losses)/gains (note (b))	(1,048,781)	4,277,786
Net unrealized investment (losses)/gains and impairment (note (c))	(2,065,072)	505,578
	280,486	6,671,765
(a) Net investment income		
Interest income from debt securities (note (i)):		
- Held-to-maturity	502,227	65,174
- Available-for-sale	1,190,974	978,156
- Designated at fair value through profit or loss	19,936	21,750
- Loans and receivables	44,134	5,646
Dividend income from direct equity securities (note (ii)):		
- Available-for-sale	44,605	25,550
- Designated at fair value through profit or loss	8,884	6,481
Dividend income from equity investment funds (note (ii)):		
- Available-for-sale	343,843	256,304
- Designated at fair value through profit or loss	818,682	382,319
Dividend income from composite investment funds (note (iii)):		
- Available-for-sale	186	-
- Designated at fair value through profit or loss	38,161	22,667
Bank deposits and other interest income	459,492	407,255
Rentals receivable from investment properties	2,809	2,426
Interest expenses on securities sold under repurchase agreements	(79,594)	(285,327)
	3,394,339	1,888,401

Notes:

	2008 \$'000	2007 \$'000
(i) Interest income from debt securities:		
Listed	523,148	992,745
Unlisted	1,234,123	77,981
(ii) Dividend income from direct equity securities and equity investment funds:		
Listed	979,112	438,695
Unlisted	236,902	231,959
(iii) Dividend income from composite investment funds:		
Listed	36,512	5,336
Unlisted	1,835	17,331

5 INVESTMENT INCOME (Continued)

	2008 \$'000	2007 \$'000
(b) Net realized investment (losses)/gains		
Debt securities (<i>note (i)</i>):		
- Available-for-sale	(16,850)	(537)
- Designated at fair value through profit or loss	284,738	100,363
Direct equity securities (<i>note (ii)</i>):		
- Available-for-sale	679,307	2,375,458
- Designated at fair value through profit or loss	(715,387)	492,991
Equity investment funds (<i>note(ii)</i>):		
- Available-for-sale	(435,849)	710,944
- Designated at fair value through profit or loss	(836,200)	592,775
Composite investment funds (<i>note(iii)</i>):		
- Designated at fair value through profit or loss	(8,540)	4,726
Derivative financial instruments	-	1,248
Loss on disposal of investment properties	-	(182)
	(1,048,781)	4,277,786

Notes:

	2008 \$'000	2007 \$'000
(i) Net realized investment (losses)/gains on debt securities:		
Listed	(12,568)	98,036
Unlisted	280,456	1,790
(ii) Net realized investment (losses)/gains on direct equity securities and equity investment funds:		
Listed	(1,311,900)	3,487,495
Unlisted	3,771	684,673
(iii) Net realized investment (losses)/gains on composite investment funds:		
Listed	(23,199)	1,118
Unlisted	14,659	3,608

5 INVESTMENT INCOME (Continued)

	2008 \$'000	2007 \$'000
(c) Net unrealized investment (losses)/gains and impairment		
Debt securities (<i>note (i)</i>):		
- Designated at fair value through profit or loss	(33,433)	41,257
Direct equity securities (<i>note (ii)</i>):		
- Designated at fair value through profit or loss	(350,515)	56,349
Equity investment funds (<i>note (ii)</i>):		
- Designated at fair value through profit or loss	(1,277,899)	379,097
Composite investment funds (<i>note (iii)</i>):		
- Designated at fair value through profit or loss	(91,938)	23,342
(Deficit)/surplus on revaluation of investment properties	(1,841)	5,533
Impairment on available-for-sale equity investments	(309,446)	-
	(2,065,072)	505,578

Notes:

	2008 \$'000	2007 \$'000
(i) Net unrealized investment (losses)/gains on debt securities:		
Listed	(24,265)	53,510
Unlisted	(9,168)	(12,253)
(ii) Net unrealized investment (losses)/gains on direct equity securities and equity investment funds:		
Listed	(971,470)	379,170
Unlisted	(656,944)	56,276
(iii) Net unrealized investment (losses)/gains on composite investment funds:		
Listed	(46,344)	4,404
Unlisted	(45,594)	18,938

6 OTHER INCOME

	2008 \$'000	2007 \$'000
Income from provision of asset management services	14,407	19,647
Income from provision of insurance intermediary services	23,367	17,027
Income from provision of pension administration services	31,972	11,244
Net gain/(loss) on sale of property and equipment	26	(136)
Others	14,791	17,151
	84,563	64,933

7 NET POLICYHOLDERS' BENEFITS AND NET COMMISSION EXPENSES

(a) Net policyholders' benefits

	2008			
	Reinsurance contracts \$'000	Life insurance contracts \$'000	Property casualty insurance contracts \$'000	Total \$'000
Claims and claim adjustment expenses	1,052,795	596,118	1,307,348	2,956,261
Less: Reinsurers' and retrocessionaires' share	(165,034)	(3,628)	(235,268)	(403,930)
	887,761	592,490	1,072,080	2,552,331
Surrenders	-	3,472,704	-	3,472,704
Annuity and maturity payments	-	102,865	-	102,865
Policy dividends	-	120,510	-	120,510
	887,761	4,288,569	1,072,080	6,248,410

	2007			
	Reinsurance contracts \$'000	Life insurance contracts \$'000		Total \$'000
Claims and claim adjustment expenses	1,062,525	508,046		1,570,571
Less: Reinsurers' and retrocessionaires' share	(67,301)	(48,109)		(115,410)
	995,224	459,937		1,455,161
Surrenders	-	3,452,949		3,452,949
Annuity and maturity payments	-	83,004		83,004
Policy dividends	-	71,041		71,041
	995,224	4,066,931		5,062,155

7 NET POLICYHOLDERS' BENEFITS AND NET COMMISSION EXPENSES (Continued)

(b) Net commission expenses

2008				
	Reinsurance contracts \$'000	Life insurance contracts \$'000	Property and casualty insurance contracts \$'000	Total \$'000
Gross commission expenses	457,688	2,048,304	228,359	2,734,351
Reinsurance commission income	(61,680)	(21,331)	(89,529)	(172,540)
Net commission expenses	396,008	2,026,973	138,830	2,561,811

2007				
	Reinsurance contracts \$'000	Life insurance contracts \$'000		Total \$'000
Gross commission expenses	400,050	1,659,302		2,059,352
Reinsurance commission income	(48,391)	(13,805)		(62,196)
Net commission expenses	351,659	1,645,497		1,997,156

8 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	2008 \$'000	2007 \$'000
(a) Finance costs:		
Interest on interest-bearing notes		
- payable within 5 years	155,031	-
- not payable within 5 years	28,352	148,467
	183,383	148,467
(b) Staff costs:		
Salaries, wages and other benefits	1,595,269	1,041,949
Employee share-based compensation benefits	29,626	7,852
Contributions to defined contribution retirement plans	174,245	80,830
	1,799,140	1,130,631
(c) Other items:		
Auditor's remuneration		
- audit services	3,409	3,804
- tax services	168	170
Depreciation of property and equipment	126,021	64,301
Impairment losses on insurance debtors and other debtors	12,022	10,151
Operating lease charges in respect of properties	190,497	95,036
Share of associates' taxation charge	13,227	22,542

9 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance was as follows:

	2008					
	Directors' fees \$'000	Salaries and other emoluments \$'000	Discretionary bonuses \$'000	Share based payments \$'000	Retirement scheme contributions \$'000	Total \$'000
Executive directors:						
Feng Xiaozeng (resigned on 7 November 2008)	-	2,387	900	-	11	3,298
Lin Fan	-	-	-	-	-	-
Song Shuguang	-	2,077	788	-	96	2,961
Xie Yiqun	-	1,827	788	-	12	2,627
He Zhiguang (appointed on 12 March 2009)	-	-	-	-	-	-
Ng Yu Lam, Kenneth	-	1,674	700	693	180	3,247
Shen Koping, Michael	-	859	1,063	3,825	12	5,759
Lau Siu Mun, Sammy	-	1,259	563	566	169	2,557
Non-executive directors:						
Zheng Changyong (resigned on 12 March 2009)	-	-	-	-	-	-
Li Tao (appointed on 12 March 2009)	-	-	-	-	-	-
Wu Jiesi	300	-	-	-	-	300
Che Shujian	300	-	-	-	-	300
Lau Wai Kit	300	-	-	-	-	300
	900	10,083	4,802	5,084	480	21,349
	2007					
	Directors' fees \$'000	Salaries and other emoluments \$'000	Discretionary bonuses \$'000	Share based payments \$'000	Retirement scheme contributions \$'000	Total \$'000
Executive directors:						
Feng Xiaozeng	-	2,423	1,700	-	12	4,135
Lin Fan	-	-	-	-	-	-
Song Shuguang	-	1,725	1,430	-	96	3,251
Xie Yiqun	-	1,725	1,430	-	12	3,167
Ng Yu Lam, Kenneth	-	1,569	1,360	457	180	3,566
Shen Koping, Michael	-	803	1,283	4,310	12	6,408
Lau Siu Mun, Sammy	-	1,182	1,050	281	158	2,671
Non-executive directors:						
Zheng Changyong	-	-	-	-	-	-
Wu Jiesi	300	-	-	-	-	300
Che Shujian	300	-	-	-	-	300
Lau Wai Kit	300	-	-	-	-	300
	900	9,427	8,253	5,048	470	24,098

The above emoluments include the value of share options granted and shares awarded to certain directors under the Company's share option scheme and share award scheme, respectively, as estimated at the date of grant and award. The details of these benefits in kind are disclosed under the paragraph "share option scheme" and "share award scheme" in the directors' report and note 40.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2007: five) are directors whose emoluments are disclosed in note 9. The emoluments of the remaining two (2007: nil) individuals are as follows:

	2008 \$'000	2007 \$'000
Salaries and other emoluments	2,654	-
Discretionary bonuses	1,137	-
Share based payments	4,667	-
Retirement scheme contributions	108	-
	8,566	-

The emoluments of the individuals with the highest emoluments are within the following bands:

\$	2008 Number of individuals	2007 Number of individuals
3,000,001 — 3,500,000	1	-
5,000,001 — 5,500,000	1	-

11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2008 \$'000	2007 \$'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	7,576	63,815
Over-provision in respect of prior years	(379)	-
	7,197	63,815
Current tax – Outside Hong Kong		
Tax for the year	905	1,019
Under/(over)-provision in respect of prior years	23,596	(1,801)
	24,501	(782)
Deferred tax		
Origination and reversal of temporary differences	(90,093)	549,586
Attributable to a change in tax rate	(4,845)	(58,908)
	(94,938)	490,678
Income tax (credit)/charge	(63,240)	553,711

11 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

The provision for Hong Kong Profits Tax represents the Group's estimated Hong Kong Profits Tax liability calculated at the standard tax rate of 16.5 % (2007: 17.5%) on its assessable profits from reinsurance, asset management and insurance intermediary businesses, except for its assessable profits from the business of reinsurance of offshore risks, which is calculated at 8.25% (2007: 8.75%), one-half of the standard tax rate.

Taxation outside Hong Kong for overseas subsidiaries is calculated at the rates prevailing in the relevant jurisdictions. Under the new Enterprise Income Tax Law of the PRC, the enterprise income tax rate for domestic companies in the PRC was changed from 15% - 33% to 18% - 25% effective from 1 January 2008.

(b) Reconciliation between tax (credit)/charge and accounting profit at applicable tax rates:

	2008 \$'000	2007 \$'000
(Loss)/profit before taxation	(269,001)	3,010,908
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	4,508	862,418
Tax effect of non-deductible expenses	706,081	183,975
Tax effect of non-taxable revenue	(920,766)	(289,307)
Tax effect of unused tax losses not recognized	179,174	79
Tax effect of prior years' tax losses utilized this year	(19,755)	(142,745)
Tax effect of different tax rate in branches located outside the head office	(31,233)	-
Under/(over)-provision in prior years	23,596	(1,801)
Tax effect of change in tax rate	(4,845)	(58,908)
Actual tax (credit)/charge	(63,240)	553,711

12 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of \$300,488,000 (2007: gain of \$18,830,000) which has been dealt with in the financial statements of the Company.

13 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year were as follows:

	2008 \$'000	2007 \$'000
No final dividend proposed after the balance sheet date (2007: 10 cents per ordinary share)	-	141,527

13 DIVIDENDS (Continued)

- (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2008 \$'000	2007 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 10 cents per share (2007: nil)	141,924	-
Less: dividend for shares held for Share Award Scheme	470	-
	141,454	-

14 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary shareholders of \$299,715,000 (2007: profit of \$1,549,072,000) and the weighted average of ordinary shares in issue during the year less shares held for the Share Award Scheme of 1,414,521,675 (2007: weighted average of shares in issue during the year of 1,405,858,842).

(b) Diluted (loss)/earnings per share

In 2008, the ordinary shares attributable to the Company's Share Option Scheme and Share Award Scheme are anti-dilutive as their conversion would decrease loss per share. In 2007, the calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of \$1,549,072,000 and the weighted average of 1,430,775,029 ordinary shares after adjusting for the effects of all of the potential dilution from ordinary shares issuable under the Company's Share Option Scheme and Share Award Scheme.

(c) Reconciliations

	2008 Number of shares	2007 Number of shares
Weighted average number of ordinary shares less shares held for Share Award Scheme used in calculating basic (loss)/earnings per share	1,414,521,675	1,405,858,842
Effect of Share Option Scheme	N/A	19,662,187
Effect of Share Award Scheme	N/A	5,254,000
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	1,414,521,675	1,430,775,029

15 FIXED ASSETS

(a) The Group

	Land and buildings \$'000	Furniture and fixtures \$'000	Computer equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:							
At 1 January 2007	1,048,212	53,812	125,796	39,422	1,267,242	106,077	1,373,319
Exchange adjustments	66,213	2,820	8,472	2,703	80,208	-	80,208
Additions	154,985	31,029	73,814	15,207	275,035	-	275,035
Disposals	-	(1,782)	(7,104)	(1,055)	(9,941)	(33,050)	(42,991)
Surplus on revaluation	-	-	-	-	-	5,533	5,533
At 1 January 2008	1,269,410	85,879	200,978	56,277	1,612,544	78,560	1,691,104
Exchange adjustments	68,263	4,259	11,274	3,023	86,819	-	86,819
Additions	693,266	82,322	146,073	27,231	948,892	-	948,892
Disposals	-	(5,975)	(5,017)	-	(10,992)	-	(10,992)
Acquired on acquisition of a subsidiary	300,758	24,432	83,088	49,156	457,434	-	457,434
Deficit on revaluation	-	-	-	-	-	(1,841)	(1,841)
At 31 December 2008	2,331,697	190,917	436,396	135,687	3,094,697	76,719	3,171,416
Representing:							
Cost	2,331,697	190,917	436,396	135,687	3,094,697	-	3,094,697
Valuation – 2008	-	-	-	-	-	76,719	76,719
	<u>2,331,697</u>	<u>190,917</u>	<u>436,396</u>	<u>135,687</u>	<u>3,094,697</u>	<u>76,719</u>	<u>3,171,416</u>
Accumulated depreciation:							
At 1 January 2007	111,271	31,074	70,004	20,203	232,552	-	232,552
Exchange adjustments	2,453	1,619	5,797	1,597	11,466	-	11,466
Charge for the year	19,921	9,572	27,993	6,815	64,301	-	64,301
Written back on disposal	(1,871)	(2,253)	(4,293)	(505)	(8,922)	-	(8,922)
At 1 January 2008	131,774	40,012	99,501	28,110	299,397	-	299,397
Exchange adjustments	3,015	1,824	6,169	1,656	12,664	-	12,664
Charge for the year	31,061	22,132	57,862	14,966	126,021	-	126,021
Written back on disposal	-	(2,182)	(5,736)	-	(7,918)	-	(7,918)
At 31 December 2008	165,850	61,786	157,796	44,732	430,164	-	430,164
Net book value:							
At 31 December 2008	<u>2,165,847</u>	<u>129,131</u>	<u>278,600</u>	<u>90,955</u>	<u>2,664,533</u>	<u>76,719</u>	<u>2,741,252</u>
At 31 December 2007	<u>1,137,636</u>	<u>45,867</u>	<u>101,477</u>	<u>28,167</u>	<u>1,313,147</u>	<u>78,560</u>	<u>1,391,707</u>

15 FIXED ASSETS *(Continued)*

(b) The Company

	Furniture and fixtures \$'000	Motor vehicles \$'000	Total \$'000
Cost:			
At 1 January 2007	2,958	1,671	4,629
Additions	124	-	124
Disposals	(58)	-	(58)
At 1 January 2008	3,024	1,671	4,695
Additions	112	-	112
Disposals	(129)	-	(129)
At 31 December 2008	3,007	1,671	4,678
Accumulated depreciation:			
At 1 January 2007	2,832	1,671	4,503
Charge for the year	77	-	77
Written back on disposal	(57)	-	(57)
At 1 January 2008	2,852	1,671	4,523
Charge for the year	78	-	78
Written back on disposal	(129)	-	(129)
At 31 December 2008	2,801	1,671	4,472
Net book value:			
At 31 December 2008	206	-	206
At 31 December 2007	172	-	172

15 FIXED ASSETS (Continued)

(c) Prepaid lease payments

	The Group	2007
	2008	
	\$'000	\$'000
Prepaid lease payments comprises:		
Leasehold land in PRC		
- Long lease	535,213	-
Current	10,704	-
Non-current	524,509	-
	535,213	-

The leasehold land was acquired during 2008 by the Group and the related companies for construction of properties primarily for own use. The construction is expected to commence in 2009. The above amount represents the share of the Group of the land for the construction project. The Group is in the process of applying for property certificate of the land-use right.

(d) The analysis of net book value of land and buildings and investment properties was as follows:

	The Group	2007
	2008	
	\$'000	\$'000
In Hong Kong		
- Long leases	113,157	116,147
- Medium-term leases	7,657	8,469
Outside Hong Kong		
- Medium-term leases	2,121,752	1,091,580
	2,242,566	1,216,196

(e) The investment properties of the Group were revalued as of 31 December 2008 by an independent firm of surveyors, Greater China Appraisal Limited, who is among its staff Associates of the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. A revaluation deficit of \$1,841,000 (2007: surplus of \$5,533,000) has been recognized in the consolidated income statement (see note 5(c)).

15 FIXED ASSETS (Continued)

- (f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually reviewed every two to three years to reflect market rentals. None of the leases includes contingent rentals.

The gross carrying amounts of the investment properties of the Group held for use in operating leases were \$70,070,000 (2007: \$71,160,000).

The time period in which the Group's total future minimum lease payments under non-cancellable operating leases are receivable is as follows:

	The Group 2008 \$'000	2007 \$'000
Within 1 year	2,455	2,971
After 1 but within 5 years	1,281	1,478
	3,736	4,449

16 GOODWILL

	The Group 2008 \$'000	2007 \$'000
Cost:		
At 1 January	478,185	478,185
Acquired on acquisition of a subsidiary (note 43)	107,744	-
Transferred from an associate company (note 18)	102,192	-
At 31 December	688,121	478,185
Impairment loss:		
At 1 January	250,000	250,000
Charge for the year	73,276	-
At 31 December	323,276	250,000
Carrying amount:		
At 31 December	364,845	228,185

16 **GOODWILL** *(Continued)*

Impairment tests for cash-generating units containing goodwill

An impairment loss of \$250,000,000 and \$73,276,000 were recognized in 2005 and 2008 respectively, in respect of goodwill associated with the acquisition of CIGAML in September 2002. After such further impairment amount of \$73,276,000 made in 2008, there is no goodwill associated with the acquisition of CIGAML.

The directors reached a conclusion on the cash flow projection of CIGAML based on past performance and expectations for future market development. As the cash generating unit has been reduced to below its recoverable amount, the goodwill of CIGAML is fully impaired.

The directors again performed the impairment review as at 31 December 2008 and found no further impairment loss on the goodwill associated with the acquisition of other subsidiaries.

17 **INVESTMENTS IN SUBSIDIARIES**

	The Company	
	2008	2007
	\$'000	\$'000
Unlisted shares, at cost	2,721,778	1,844,859
Less: Impairment loss	(344,179)	(191,500)
	2,377,599	1,653,359

The following list contains details of the Company's principal subsidiaries at the balance sheet date. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(e) and have been consolidated into the Group's financial statements.

The nature of the impairment loss relates to CIGAML as described in note 16.

17 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital		Proportion of ownership interest						Principal activity
		2008	2007	Group's effective interest		Held by the Company		Held by subsidiaries		
				2008	2007	2008	2007	2008	2007	
China International Reinsurance Company Limited (Note (i))	Hong Kong	Ordinary \$1,000,000,000 Deferred \$600,000,000	Ordinary \$1,000,000,000 Deferred \$600,000,000	100%	100%	-	-	100%	100%	Reinsurance business
Tai Ping Life Insurance Company, Limited (Note (ii))	PRC	RMB 2,330,000,000	RMB 2,330,000,000	50.05%	50.05%	50.05%	50.05%	-	-	Life insurance business
The Tai Ping Insurance Company, Limited (Note (ii & iii))	PRC	RMB 1,570,000,000	-	50.05%	-	50.05%	-	-	-	Property and casualty insurance
Tai Ping Pension Company Limited (Note (ii))	PRC	RMB 800,000,000	RMB 500,000,000	50.03%	44.03%	-	-	86%	74%	Pension business
Tai Ping Assets Management Company Limited (Note (ii))	PRC	RMB 100,000,000	RMB 100,000,000	42.03%	37.08%	-	-	72%	62.1%	Asset management business in the PRC
China Insurance Group Assets Management Limited	Hong Kong	\$130,000,000	\$130,000,000	100%	100%	100%	100%	-	-	Asset management business in Hong Kong
SINO-RE Reinsurance Brokers Limited (Note (i))	Hong Kong	Ordinary \$4,000,000 Deferred \$1,000,000	Ordinary \$4,000,000 Deferred \$1,000,000	100%	100%	-	-	100%	100%	Insurance broking
Quicken Assets Limited	BVI/ Hong Kong	US\$1	US\$1	100%	100%	100%	100%	-	-	Property holding
CIH (BVI) Limited	BVI/ Hong Kong	US\$1	US\$1	100%	100%	100%	100%	-	-	Financing
Share China Assets Limited	BVI/ Hong Kong	US\$1	US\$1	100%	100%	100%	100%	-	-	Investment holding

17 INVESTMENTS IN SUBSIDIARIES (Continued)

Notes:

- (i) Holders of the non-voting deferred shares in CIRE and SINO-RE are not entitled to share profits, receive notice of or attend or vote at any general meeting of these companies. On the winding-up of these companies, the holders of the non-voting deferred shares are not entitled to the distribution of the net assets of these companies for the first \$100 billion; the balance of net assets, if any, over the first \$100 billion shall be distributed among the holders of the ordinary shares and non-voting distributed shares pari passu among themselves in proportion to their respective shareholdings.
- (ii) These companies are PRC limited companies.
- (iii) TPI was an associate of the Company before 15 July 2008. Details are set out in note 43.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

18 INTEREST IN ASSOCIATES

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	-	-	6,937	580,474
Share of net assets	134,382	428,065	-	-
Goodwill	-	102,192	-	-
Amounts due from associates	-	179	-	-
	134,382	530,436	6,937	580,474

On 15 July 2008, the Group contributed additional capital of RMB265,460,000 (approximately HK\$303,381,000) into TPI. Since then, the Group's equity interest in TPI has increased from 40.025% to 50.05%. Particulars of the transaction related to the acquisition of an additional interest of 10.025% of TPI are set out in note 43. The loss of TPI shared by the Group up to the date of its ceasing to be associate of the Group amounted to \$113,252,000. The goodwill associated with acquisition of TPI in previous years, amounting to \$102,192,000 was reclassified to goodwill as disclosed in note 16.

18 INTEREST IN ASSOCIATES (Continued)

The following list contains details of the Company's principal associates, all of which are unlisted corporate entities:

Name of associates	Limited business structure	Place of incorporation and operation	Particulars of issued and paid up capital		Proportion of ownership interest						Principal activity
					Group's effective interest		Held by the Company		Held by subsidiaries		
			2008	2007	2008	2007	2008	2007	2008	2007	
The Tai Ping Insurance Company, Limited <i>(Note (i & ii))</i>	Incorporated	PRC	-	RMB 1,300,000,000	-	40.025%	-	40.025%	-	-	Property and casualty insurance
CMT ChinaValue Capital Partners, L.P.	Limited partnership	Cayman Islands/Hong Kong	US\$11,131,987	US\$9,586,738	22.54%	22.18%	-	-	22.18%	22.18%	Investment holding
CMT ChinaValue Capital Advisors Limited	Incorporated	Hong Kong	\$1,000	\$1,000	46%	46%	-	-	46%	46%	Advisory services
Huatai Insurance Agency & Consultant Service Limited <i>(Note (ii))</i>	Incorporated	PRC	RMB 30,000,000	RMB 30,000,000	25%	25%	25%	25%	-	-	Insurance agency and consultancy

Notes:

- (i) TPI become a subsidiary of the Company since 15 July 2008. Details are set out in note 43.
- (ii) These companies are PRC limited companies.

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

Summary of financial information on associates

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenues \$'000	(Loss)/profit \$'000
2008					
100 per cent	678,142	87,596	590,546	113,529	(14,878)
Group's effective interest	156,594	22,212	134,382	30,419	(2,596)
2007					
100 per cent	4,797,905	3,475,629	1,322,276	3,598,419	(146,830)
Group's effective interest	1,786,436	1,358,371	428,065	1,428,002	(57,760)

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES

(a) The Group

	2008 \$'000	2007 \$'000
Held-to-maturity (<i>Note (i)</i>):		
- Debt securities	21,004,147	1,019,074
Available-for-sale (<i>Note (ii)</i>):		
- Debt securities	26,003,951	25,947,544
- Direct equity securities	1,510,722	5,243,168
- Equity investment funds	2,711,892	2,220,712
- Composite investment funds	38,182	51,378
	30,264,747	33,462,802
Designated at fair value through profit or loss (<i>Note (iii)</i>):		
- Debt securities	854,187	523,905
- Direct equity securities	110,990	1,757,284
- Equity investment funds	2,411,808	3,394,244
- Composite investment funds	52,181	88,570
	3,429,166	5,764,003
Loans and receivables (<i>Note (iv)</i>):		
- Debt securities	2,165,806	256,306
Total	56,863,866	40,502,185

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES (Continued)

(a) The Group (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
(i) Held-to-maturity						
At 31 December 2008						
Listed in Hong Kong	-	-	111,290	-	-	111,290
Listed outside Hong Kong	49,119	43,317	877,097	1,251,297	10,995	2,231,825
Unlisted	9,029,771	7,656	5,758,455	3,865,150	-	18,661,032
	<u>9,078,890</u>	<u>50,973</u>	<u>6,746,842</u>	<u>5,116,447</u>	<u>10,995</u>	<u>21,004,147</u>
Fair value of securities	<u>9,126,611</u>	<u>53,121</u>	<u>6,724,229</u>	<u>5,121,505</u>	<u>12,691</u>	<u>21,038,157</u>
Market value of listed securities	<u>50,155</u>	<u>45,176</u>	<u>957,395</u>	<u>1,255,753</u>	<u>12,691</u>	<u>2,321,170</u>
At 31 December 2007						
Listed outside Hong Kong	52,378	85,298	120,592	394,243	12,349	664,860
Unlisted	71,180	7,666	252,022	23,346	-	354,214
	<u>123,558</u>	<u>92,964</u>	<u>372,614</u>	<u>417,589</u>	<u>12,349</u>	<u>1,019,074</u>
Fair value of securities	<u>142,385</u>	<u>96,312</u>	<u>381,134</u>	<u>431,633</u>	<u>14,195</u>	<u>1,065,659</u>
Market value of listed securities	<u>54,699</u>	<u>87,843</u>	<u>123,264</u>	<u>408,167</u>	<u>14,195</u>	<u>688,168</u>

The held-to-maturity debt securities include an amount of \$1,330,641,000 (2007: \$300,815,000) which is maturing within one year. None of the securities are past due or impaired.

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES (Continued)

(a) The Group (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
(ii) Available-for-sale						
At 31 December 2008						
Listed debt securities						
- in Hong Kong	42,145	-	46,836	15,428	-	104,409
- outside Hong Kong	6,593,739	-	612,648	3,898,749	-	11,105,136
Listed direct equity securities						
- in Hong Kong	-	-	203,862	208,541	4,180	416,583
- outside Hong Kong	-	-	3,994	1,071,666	-	1,075,660
Listed equity investment funds						
outside Hong Kong	-	-	-	456,498	-	456,498
Listed composite investment funds						
outside Hong Kong	-	-	-	38,182	-	38,182
Unlisted debt securities	4,180,547	-	3,329,487	7,284,372	-	14,794,406
Unlisted direct equity securities	-	-	-	18,479	-	18,479
Unlisted equity investment funds	-	-	-	2,255,394	-	2,255,394
	10,816,431	-	4,196,827	15,247,309	4,180	30,264,747
Fair value of securities	10,816,431	-	4,196,827	15,247,309	4,180	30,264,747
Market value of listed securities	6,635,884	-	867,340	5,689,064	4,180	13,196,468
Current	10,816,431	-	4,196,827	15,247,309	4,180	30,264,747
Non-current	-	-	-	-	-	-
	10,816,431	-	4,196,827	15,247,309	4,180	30,264,747
At 31 December 2007						
Listed debt securities						
- in Hong Kong	40,020	-	15,697	-	-	55,717
- outside Hong Kong	13,345,430	7,759	3,129,686	8,662,685	17,637	25,163,197
Listed direct equity securities						
- in Hong Kong	639	5,205	552,682	396,537	-	955,063
- outside Hong Kong	-	-	17,375	4,252,170	-	4,269,545
Listed equity investment funds						
outside Hong Kong	-	-	-	627,363	-	627,363
Listed composite investment funds						
outside Hong Kong	-	-	-	51,378	-	51,378
Unlisted debt securities	-	-	466,522	262,108	-	728,630
Unlisted direct equity securities	-	-	-	18,560	-	18,560
Unlisted equity investment funds	-	-	-	1,593,349	-	1,593,349
	13,386,089	12,964	4,181,962	15,864,150	17,637	33,462,802
Fair value of securities	13,386,089	12,964	4,181,962	15,864,150	17,637	33,462,802
Market value of listed securities	13,386,089	12,964	3,715,440	13,990,133	17,637	31,122,263
Current	13,386,089	12,964	4,181,962	15,864,150	17,637	33,462,802
Non-current	-	-	-	-	-	-
	13,386,089	12,964	4,181,962	15,864,150	17,637	33,462,802

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES (Continued)

(a) The Group (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
(iii) Designated at fair value through profit or loss						
At 31 December 2008						
Listed debt securities						
- in Hong Kong	-	-	-	38,836	-	38,836
- outside Hong Kong	78,582	-	49,779	87,805	-	216,166
Listed direct equity securities						
- in Hong Kong	-	-	6,719	11,404	-	18,123
- outside Hong Kong	-	-	22,458	70,409	-	92,867
Listed equity investment funds outside Hong Kong	-	-	-	244,702	-	244,702
Listed composite investment funds outside Hong Kong	-	-	-	28,859	-	28,859
Unlisted debt securities	549,478	-	49,707	-	-	599,185
Unlisted equity investment funds	-	-	-	2,167,106	-	2,167,106
Unlisted composite investment funds	-	-	23,322	-	-	23,322
	628,060	-	151,985	2,649,121	-	3,429,166
Fair value of securities	628,060	-	151,985	2,649,121	-	3,429,166
Market value of listed securities	78,582	-	78,956	482,015	-	639,553
Current	628,060	-	151,985	2,649,121	-	3,429,166
Non-current	-	-	-	-	-	-
	628,060	-	151,985	2,649,121	-	3,429,166

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES (Continued)

(a) The Group (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
(iii) Designated at fair value through profit or loss (continued)						
At 31 December 2007						
Listed debt securities						
outside Hong Kong	207,730	-	105,958	105,148	-	418,836
Listed direct equity securities						
- in Hong Kong	-	-	17,862	31,547	-	49,409
- outside Hong Kong	-	-	33,523	1,674,352	-	1,707,875
Listed equity investment funds						
outside Hong Kong	-	-	53,457	2,430,847	-	2,484,304
Listed composite investment funds						
outside Hong Kong	-	-	14,677	39,463	-	54,140
Unlisted debt securities	-	-	84,488	20,581	-	105,069
Unlisted equity investment funds	-	-	43,964	865,976	-	909,940
Unlisted composite investment	-	-	34,430	-	-	34,430
	<u>207,730</u>	<u>-</u>	<u>388,359</u>	<u>5,167,914</u>	<u>-</u>	<u>5,764,003</u>
Fair value of securities	<u>207,730</u>	<u>-</u>	<u>388,359</u>	<u>5,167,914</u>	<u>-</u>	<u>5,764,003</u>
Market value of listed securities	<u>207,730</u>	<u>-</u>	<u>225,477</u>	<u>4,281,357</u>	<u>-</u>	<u>4,714,564</u>
Current	207,730	-	388,359	5,167,914	-	5,764,003
Non-current	-	-	-	-	-	-
	<u>207,730</u>	<u>-</u>	<u>388,359</u>	<u>5,167,914</u>	<u>-</u>	<u>5,764,003</u>

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES (Continued)

(a) The Group (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
(iv) Loans and receivables						
At 31 December 2008						
Unlisted debt securities	-	-	-	2,165,806	-	2,165,806
Fair value of securities	-	-	-	2,077,739	-	2,077,739
Current	-	-	-	-	-	-
Non-current	-	-	-	2,165,806	-	2,165,806
	-	-	-	2,165,806	-	2,165,806
At 31 December 2007						
Unlisted debt securities	-	-	-	256,306	-	256,306
Fair value of securities	-	-	-	218,888	-	218,888
Current	-	-	-	-	-	-
Non-current	-	-	-	256,306	-	256,306
	-	-	-	256,306	-	256,306

19 INVESTMENTS IN DEBT AND EQUITY SECURITIES (Continued)

(b) The Company

	2008	2007
	\$'000	\$'000
Available-for-sale (note(i)) :		
- Debt securities	402,643	174,330
- Direct equity securities	169,182	116,515
	571,825	290,845
(i) Available-for-sale		
Listed debt securities		
- in Hong Kong	15,428	-
- outside Hong Kong	157,335	39,004
Listed direct equity securities in Hong Kong	169,182	116,515
Unlisted debt securities	229,880	135,326
	571,825	290,845
Fair value of securities	571,825	290,845
Market value of listed securities	341,945	155,519
Current	571,825	290,845
Non-current	-	-
	571,825	290,845

20 AMOUNTS DUE FROM/(TO) GROUP COMPANIES

(a) Due from group companies

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Amount due from the ultimate holding company	3,083	993	65	11
Amount due from the immediate holding company	157	9	-	-
Amounts due from fellow subsidiaries	8,215	16,486	3,216	-
Amounts due from subsidiaries	-	-	456,370	443,640
	11,455	17,488	459,651	443,651

(b) Due to group companies

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Amount due to the ultimate holding company	341	26	-	-
Amount due to the immediate holding company	151	20	4	-
Amounts due to fellow subsidiaries	-	-	-	-
Amount due to subsidiaries	-	-	1,592,637	1,363,388
	492	46	1,592,641	1,363,388

Included in the amount due to subsidiaries is \$1,356,813,000 (2007: \$1,363,388,000), which is unsecured, repayable after more than one year and bears interest at a rate of 6.12% (2007: 6.03%).

Other amounts due from/(to) group companies are unsecured, interest free and repayable on demand.

21 INSURANCE DEBTORS

	The Group	
	2008	2007
	\$'000	\$'000
Amounts due from insurance customers and suppliers	956,282	552,844
Less: allowance for doubtful debts (<i>Note (b)</i>)	(23,937)	(20,583)
	932,345	532,261
Deposits retained by cedants	93,877	84,279
	1,026,222	616,540

All of the insurance debtors are expected to be recovered within one year.

Amounts due from insurance customers and suppliers include amounts due from fellow subsidiaries of \$12,887,000 (2007: \$15,904,000) which are insurance related in nature.

(a) Ageing analysis

The following is an ageing analysis of the amounts due from insurance customers and suppliers that are not individually considered to be impaired:

	The Group	
	2008	2007
	\$'000	\$'000
Not yet due	365,262	270,056
Current	430,839	233,831
More than 3 months but less than 12 months	97,594	25,144
More than 12 months	38,650	3,230
	932,345	532,261

Amounts due from insurance customers and suppliers that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

The amount of impaired debts are \$23,937,000 (2007: \$20,583,000). We have taken various actions to recover the debts, but these debts have not been recovered.

21 INSURANCE DEBTORS *(Continued)*

(b) Movement in the allowance for doubtful debts

	The Group 2008 \$'000	2007 \$'000
At 1 January	20,583	10,432
Impairment losses recognized	3,354	10,151
At 31 December	<u>23,937</u>	<u>20,583</u>

22 REINSURERS' SHARE OF INSURANCE CONTRACT PROVISIONS

The reinsurers' share of insurance contract provisions represents the reinsurers' share of life insurance funds, unearned premium provisions and provision for outstanding claims arising from the life insurance, reinsurance and property casualty insurance businesses.

	The Group 2008 \$'000	2007 \$'000
Life insurance funds <i>(Note 27)</i>	7,780	3,386
Unearned premium provisions <i>(Note 28)</i>	493,227	101,350
Provision for outstanding claims <i>(Note 29)</i>	920,955	272,004
	<u>1,421,962</u>	<u>376,740</u>

23 OTHER DEBTORS

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Other debtors, deposits and prepayments	1,699,626	1,155,133	11,591	51,167
Less: allowance for doubtful debts (Note (a))	(8,668)	-	-	-
	1,690,958	1,155,133	11,591	51,167
Loans and advances (Note (b))	380,541	276,219	-	-
	2,071,499	1,431,352	11,591	51,167

(a) Movement in the allowance for doubtful debts:

	The Group	
	2008	2007
	\$'000	\$'000
At 1 January	-	-
Impairment losses recognized	8,668	-
At 31 December	8,668	-

The amount of impaired debts are \$8,668,000 (2007: nil). We have taken various actions to recover the debts, but these debts have not yet been recovered.

(b) Loans and advances are repayable with the following terms:

	2008	2007	Interest rate	Repayment term
	\$'000	\$'000		
Secured loans:				
- to policyholders	380,541	276,219	4.5 – 4.7%	Less than 6 months

There was no amount due but unpaid, nor any provision made against the principal amount or interest on these loans as of 31 December 2007 and 2008.

24 PLEDGED DEPOSITS AT BANKS

The deposits at banks of \$102,453,000 (2007: \$97,417,000) are pledged to banks to secure letters of credit issued on behalf of the Group.

All of the pledged deposits at banks are expected to be settled within one year.

25 STATUTORY DEPOSITS

Certain subsidiaries of the Group have placed \$975,180,000 (2007: \$640,764,000) with banks as capital guarantee funds, pursuant to the relevant PRC insurance rules and regulations. The funds can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiaries cannot meet the statutory solvency requirements or go into liquidation.

In addition, a subsidiary of the Group has pledged a deposit of \$20,150,000 (2007: \$12,475,000) registered in favour of the Monetary Authority of Singapore pursuant to section 14A of the Singapore Insurance Act.

26 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Deposits with banks and other financial institutions with original maturity less than three months	2,840,969	2,623,848	250,141	609,722
Money market funds	1,462,825	393,259	-	-
Cash at bank and in hand	3,528,001	2,120,528	1,637	12,437
Cash and cash equivalents in the balance sheet and the cash flow statement	7,831,795	5,137,635	251,778	622,159

27 LIFE INSURANCE FUNDS

	2008			2007		
	Reinsurers'			Reinsurers'		
	Gross	share	Net	Gross	share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at						
1 January	38,529,656	(3,386)	38,526,270	24,406,372	(462)	24,405,910
Premiums written						
during the year	21,207,791	(110,221)	21,097,570	16,245,249	(66,253)	16,178,996
Surrenders	(3,472,704)	-	(3,472,704)	(3,452,949)	-	(3,452,949)
Annuity and maturity						
payments	(102,865)	-	(102,865)	(83,004)	-	(83,004)
Policy dividends	(120,510)	-	(120,510)	(71,041)	-	(71,041)
Other movements	(5,765,061)	106,082	(5,658,979)	(786,010)	63,478	(722,532)
Exchange alignment	2,510,906	(255)	2,510,651	2,271,039	(149)	2,270,890
Balance as at						
31 December	52,787,213	(7,780)	52,779,433	38,529,656	(3,386)	38,526,270

Key assumptions used in estimating the life insurance funds

The insurance contract provisions have been established based upon the following key assumptions:

- Interest rates which vary by the life of contract;
- Mortality/morbidity rates based on the China Life table (2000-2003); and
- Lapse rates based on 100% of pricing assumptions.

Sensitivities of changes in key assumptions:

	Impact on profit after tax and total equity HK\$' million
2008	
1% increase in interest rate	245.35
10% decrease in mortality/morbidity rate	15.79
2007	
1% increase in interest rate	149.74
10% decrease in mortality/morbidity rate	12.42

During the year, there were no significant changes in the key assumptions used in estimating the life insurance funds.

28 UNEARNED PREMIUM PROVISIONS

	2008			2007		
	Reinsurers'			Reinsurers'		
	Gross	share	Net	Gross	share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reinsurance (Note (i))	613,329	(76,395)	536,934	566,064	(62,890)	503,174
Life insurance (Note (ii))	397,415	(46,236)	351,179	327,860	(38,460)	289,400
Property and casualty insurance (Note (iii))	2,446,005	(370,596)	2,075,409	-	-	-
Balance as at 31 December	<u>3,456,749</u>	<u>(493,227)</u>	<u>2,963,522</u>	<u>893,924</u>	<u>(101,350)</u>	<u>792,574</u>

Notes:

(i) Analysis of movement in the unearned premium provisions for the reinsurance business:

	2008			2007		
	Reinsurers'			Reinsurers'		
	Gross	share	Net	Gross	share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January	566,064	(62,890)	503,174	527,934	(52,873)	475,061
Premiums written during the year	1,838,999	(270,337)	1,568,662	1,681,212	(211,150)	1,470,062
Premiums earned during the year	(1,791,734)	256,832	(1,534,902)	(1,643,082)	201,133	(1,441,949)
Balance as at 31 December	<u>613,329</u>	<u>(76,395)</u>	<u>536,934</u>	<u>566,064</u>	<u>(62,890)</u>	<u>503,174</u>

(ii) Analysis of movement in the unearned premium provisions for the life insurance business:

	2008			2007		
	Reinsurers'			Reinsurers'		
	Gross	share	Net	Gross	share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January	327,860	(38,460)	289,400	325,034	(35,698)	289,336
Premiums written during the year	21,207,791	(110,221)	21,097,570	16,245,249	(66,253)	16,178,996
Premiums earned during the year	(21,159,037)	104,880	(21,054,157)	(16,265,298)	66,101	(16,199,197)
Exchange alignment	20,801	(2,435)	18,366	22,875	(2,610)	20,265
Balance as at 31 December	<u>397,415</u>	<u>(46,236)</u>	<u>351,179</u>	<u>327,860</u>	<u>(38,460)</u>	<u>289,400</u>

28 UNEARNED PREMIUM PROVISIONS *(Continued)*

- (iii) Analysis of movement in the unearned premium provisions for the property and casualty insurance business:

	2008			2007		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January	-	-	-	-	-	-
Acquisition of subsidiary	2,430,084	(325,845)	2,104,239	-	-	-
Premiums written during the year	1,949,904	(349,760)	1,600,144	-	-	-
Premiums earned during the year	(1,924,754)	312,290	(1,612,464)	-	-	-
Exchange alignment	(9,229)	(7,281)	(16,510)	-	-	-
Balance as at 31 December	<u>2,446,005</u>	<u>(370,596)</u>	<u>2,075,409</u>	<u>-</u>	<u>-</u>	<u>-</u>

29 PROVISION FOR OUTSTANDING CLAIMS

	2008			2007		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reinsurance (<i>Note (i)</i>)	2,548,443	(336,683)	2,211,760	2,349,612	(260,608)	2,089,004
Life insurance (<i>Note (ii)</i>)	268,338	(15,925)	252,413	147,320	(11,396)	135,924
Property and casualty insurance (<i>Note (iii)</i>)	1,652,048	(568,347)	1,083,701	-	-	-
Balance as at 31 December	<u>4,468,829</u>	<u>(920,955)</u>	<u>3,547,874</u>	<u>2,496,932</u>	<u>(272,004)</u>	<u>2,224,928</u>

29 PROVISION FOR OUTSTANDING CLAIMS (Continued)

Notes:

- (i) Analysis of movement in the provision for outstanding claims for the reinsurance business:

	2008			2007		
	Reinsurers'			Reinsurers'		
	Gross	share	Net	Gross	share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January	2,349,612	(260,608)	2,089,004	2,133,272	(300,589)	1,832,683
Claims paid during the year	(853,964)	88,959	(765,005)	(846,185)	107,282	(738,903)
Claims incurred during the year	1,052,795	(165,034)	887,761	1,062,525	(67,301)	995,224
Balance as at 31 December	2,548,443	(336,683)	2,211,760	2,349,612	(260,608)	2,089,004

- (ii) Analysis of movement in the provision for outstanding claims for the life insurance business:

	2008			2007		
	Reinsurers'			Reinsurers'		
	Gross	share	Net	Gross	share	Net
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January	147,320	(11,396)	135,924	52,894	(2,285)	50,609
Claims paid during the year	(485,429)	(155)	(485,584)	(421,081)	39,520	(381,561)
Claims incurred during the year	596,118	(3,628)	592,490	508,046	(48,109)	459,937
Exchange alignment	10,329	(746)	9,583	7,461	(522)	6,939
Balance as at 31 December	268,338	(15,925)	252,413	147,320	(11,396)	135,924

29 PROVISION FOR OUTSTANDING CLAIMS *(Continued)*

- (iii) Analysis of movement in the provision for outstanding claims for the property and casualty insurance business:

	2008 Reinsurers'			2007 Reinsurers'		
	Gross \$'000	share \$'000	Net \$'000	Gross \$'000	share \$'000	Net \$'000
Balance as at 1 January	-	-	-	-	-	-
Acquisition of subsidiary	1,550,105	(562,503)	987,602	-	-	-
Claims paid during the year	(1,192,865)	223,093	(969,772)	-	-	-
Claims incurred during the year	1,307,346	(235,268)	1,072,078	-	-	-
Exchange alignment	(12,538)	6,331	(6,207)	-	-	-
Balance as at 31 December	1,652,048	(568,347)	1,083,701	-	-	-

30 INVESTMENT CONTRACT LIABILITIES

	The Group	
	2008 \$'000	2007 \$'000
Balance as at 1 January	157,421	115,681
Premiums written during the year	230,536	58,584
Surrenders and withdrawals	(152,066)	(16,844)
Balance as at 31 December	235,891	157,421

31 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	7,576	64,091	-	10,893
Provisional Hong Kong Profits Tax paid	(1,640)	(33,223)	-	-
	5,936	30,868	-	10,893
Balance of Hong Kong Profits Tax provision relating to prior years	36,551	54,069	-	-
Taxation outside Hong Kong	15,119	1,062	-	-
	57,606	85,999	-	10,893
Amount of taxation payable expected to be settled after more than 1 year	-	-	-	-
Net tax recoverable recognized in the balance sheet	(1,640)	-	-	-
Net current taxation recognized in the balance sheet	59,246	85,999	-	10,893
	57,606	85,999	-	10,893

31 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognized:

The Group

The components of deferred tax assets/(liabilities) (prior to the offsetting of balances within the same taxation jurisdiction) recognized in the consolidated balance sheet and the movements during the year were as follows:

Deferred tax	Difference in		Fair value adjustment arising from business combination	Fair value adjustment of available-for-sale securities	Securities designated at fair value through profit or loss	Unused tax losses	Life insurance funds	Provision for outstanding claims	Others	Total
arising from:	allowances and related depreciation	Revaluation of properties								
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2008	11,083	(384)	-	(278,108)	(270,337)	1,211	(413,120)	1,539	1,733	(946,383)
(Charged)/credited to consolidated income statement	(8,739)	(18)	-	144	283,812	8,654	(193,558)	6,464	(1,821)	94,938
Charged to reserves	-	-	-	303,201	-	-	-	-	-	303,201
Arising on acquisition of subsidiary	-	-	(13,870)	-	-	-	-	-	-	(13,870)
Exchange difference	492	-	-	(16,904)	(13,562)	-	(27,671)	167	85	(57,393)
At 31 December 2008	2,836	(402)	(13,870)	8,333	(87)	9,865	(634,349)	8,170	(3)	(619,507)
At 1 January 2007	14,983	(322)	-	(517,453)	(190,971)	268,728	(237,165)	1,305	(2,963)	(663,858)
(Charged)/credited to consolidated income statement	(4,640)	(62)	-	-	(62,835)	(275,645)	(152,344)	134	4,714	(490,678)
Charged to reserves	-	-	-	275,584	-	-	-	-	-	275,584
Exchange difference	740	-	-	(36,239)	(16,531)	8,128	(23,611)	100	(18)	(67,431)
At 31 December 2007	11,083	(384)	-	(278,108)	(270,337)	1,211	(413,120)	1,539	1,733	(946,383)
							2008			2007
							\$'000			\$'000
Net deferred tax asset recognized in the consolidated balance sheet							22,353			2,648
Net deferred tax liability recognized in the consolidated balance sheet							(641,860)			(949,031)
							(619,507)			(946,383)

31 INCOME TAX IN THE BALANCE SHEET (Continued)**(b) Deferred tax assets and liabilities recognized:(continued)****The Company**

The components of deferred tax (assets)/liabilities recognized in the balance sheet and the movements during the year were as follows:

	Fair value adjustment of available- for-sale securities \$'000
Deferred tax arising from:	
At 1 January 2008	157
Charged to reserves	(5,706)
At 31 December 2008	(5,549)
At 1 January 2007	4,406
Charged to reserves	(4,249)
At 31 December 2007	157

31 INCOME TAX IN THE BALANCE SHEET *(Continued)*

(c) Deferred tax assets not recognized

At 31 December 2008, the Group did not recognize deferred tax assets in respect of certain tax losses of \$1,015,878,000 (2007: \$193,044,000). Of this amount, the total tax loss of \$832,597,000 (2007: 183,783,000) can be carried forward up to five years after the year in which the loss was originated to offset future taxable profits, while the remaining tax losses do not expire under current tax legislation.

32 INTEREST-BEARING NOTES

	The Group	
	2008	2007
	\$'000	\$'000
USD notes due 2013 (<i>Note (a)</i>)	1,350,576	1,358,467
RMB subordinated notes due 2013 (<i>Note (b)</i>)	1,700,895	1,601,910
RMB subordinated notes due 2018 (<i>Note (c)</i>)	2,324,557	-
	5,376,028	2,960,377
Fair value of interest-bearing notes	5,363,591	2,962,015

Notes:

- (a) On 12 November 2003, a subsidiary of the Group issued 5.8% notes for the principal amount of US\$175,000,000 at a discount. The notes are listed on the Singapore Exchange Securities Trading Limited and will be redeemed on 12 November 2013 at their principal amount. Interest on the notes is payable semi-annually in arrears.

The notes may be redeemed by the subsidiary, at its option, at any time at par plus accrued interest, in the event of certain tax changes as described under “Conditions of the Notes - Redemption and Purchase” in the offering circular dated 3 November 2003.

The notes issued are unconditionally and irrevocably guaranteed by the Company.

- (b) On 23 October 2005, TPL, a subsidiary of the Group issued 4.45% subordinated notes at par for the principal amount of RMB1,500,000,000. The notes will be redeemed on 30 November 2013 and cannot be repaid on demand before then. Interest on the notes is payable annually in arrears.

The notes issued are free of any collateral and guarantee.

- (c) During September and December 2008, TPL and TPI, subsidiaries of the Group issued 6.3% subordinated notes at par for the principal amount of RMB1,350,000,000 and RMB700,000,000, respectively. The notes will mature in September and October 2018 but the notes can be redeemed at the fifth anniversary year of the issue date. Interest on the notes is payable annually in arrears.

The notes issued by TPL are free of any collateral and guarantee. The notes issued by TPI are free of any collateral but are unconditionally and irrevocably guaranteed by CIHC.

33 INSURANCE CREDITORS

	The Group 2008 \$'000	2007 \$'000
Amounts due to insurance customers and suppliers	185,198	53,312
Amounts due to insurance intermediaries	57,834	101,732
Deposits retained from retrocessionaires	22,584	22,820
Prepaid premiums received	474,523	216,252
	740,139	394,116

All of the amounts due to the insurance creditors are expected to be settled within one year.

The amounts due to insurance customers and suppliers include amounts due to fellow subsidiaries of \$2,953,000 (2007: \$16,620,000) which are insurance related in nature.

The following is an ageing analysis of the amounts due to insurance customers and suppliers:

	The Group 2008 \$'000	2007 \$'000
Current	164,441	18,890
More than 3 months but less than 12 months	12,494	27,363
More than 12 months	8,263	7,059
	185,198	53,312

34 OTHER CREDITORS

All of the other creditors are expected to be settled within one year.

35 INSURANCE PROTECTION FUND

The amount represents the amount payable to the insurance protection fund at balance sheet date. According to the CIRC's Order (2004) No. 16 "Administration rule on insurance protection fund", the insurance protection fund is calculated on the basis of 1% of retained premium for accident and short-term health policies, 0.15% of retained premium for long-term life and long-term health policies with guaranteed interest, and 0.05% of retained premium for long-term life policies without guaranteed interest. The ceiling of the fund for a life insurance company is 1% of its total assets.

36 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Group enters into transactions by which it transfers financial assets directly to third parties. These transfers will not give rise to derecognition of the financial assets concerned as all the risks and rewards of ownership are not transferred and control is retained.

All of the securities sold under repurchase agreements are denominated in RMB and expected to be settled within one year.

37 SHARE CAPITAL

	2008		2007	
	No. of	\$'000	No. of	\$'000
	shares		shares	
Authorized:				
Ordinary shares of \$0.05 each	2,000,000,000	100,000	2,000,000,000	100,000
Issued and fully paid:				
At 1 January	1,415,272,592	70,764	1,406,251,592	70,313
Shares issued under Share Option Scheme (<i>note (a)</i>)	6,449,000	322	9,021,000	451
At 31 December	1,421,721,592	71,086	1,415,272,592	70,764

All of the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

- (a) During the year ended 31 December 2008, options were exercised to subscribe for 6,449,000 ordinary shares (see note 40(a)) in the Company at a consideration of \$15,413,000 of which \$322,000 was credited to share capital and the balance of \$15,091,000 was credited to the share premium account.

During the year ended 31 December 2007, options were exercised to subscribe for 9,021,000 ordinary shares (see note 40(a)) in the Company at a consideration of \$22,346,000 of which \$451,000 was credited to the share capital and the balance of \$21,895,000 was credited to the share premium account.

38 RESERVES

(a) The Group

	Capital reserve \$'000	Share premium \$'000	Exchange reserve \$'000	Fair value reserve \$'000	Employee share-based compensation reserve \$'000	Shares held for Share Award Scheme \$'000	Revaluation reserve \$'000	Retained profits \$'000	Total \$'000
At 1 January 2008	567,458	2,201,064	200,357	726,901	23,336	(111,147)	-	2,006,893	5,614,862
Shares issued and share option exercised	-	17,184	-	-	-	-	-	-	17,184
Exchange differences on translation of the financial statements of subsidiaries	-	-	147,704	-	-	-	-	-	147,704
Available-for-sale securities (<i>note(i)</i>):	-	-	-	(866,543)	-	-	-	-	(866,543)
- changes in fair value	-	-	-	(921,241)	-	-	-	-	(921,241)
- deferred tax recognized	-	-	-	158,783	-	-	-	-	158,783
- transferred to profit or loss	-	-	-	(104,085)	-	-	-	-	(104,085)
Loss for the year	-	-	-	-	-	-	-	(299,715)	(299,715)
Dividend paid	-	-	-	-	-	-	-	(141,454)	(141,454)
Transferred to retained profits on disposal of revoked shares for Share Award Scheme	-	-	-	-	-	-	-	(5,052)	(5,052)
Shares purchased for Share Award Scheme	-	-	-	-	-	14,359	-	-	14,359
Equity settled share-based transactions	-	-	-	-	27,533	-	-	-	27,533
Revaluation increase on acquisition of additional interest in an associate	-	-	-	-	-	-	16,655	-	16,655
At 31 December 2008	567,458	2,218,248	348,061	(139,642)	50,869	(96,788)	16,655	1,560,672	4,525,533

38 RESERVES (Continued)

(a) The Group (continued)

	Capital reserve \$'000	Share premium \$'000	Exchange reserve \$'000	Fair value reserve \$'000	Employee share-based compensation reserve \$'000	Shares held for Share Award Scheme \$'000	Retained profits \$'000	Total \$'000
At 1 January 2007	567,458	2,174,123	46,986	841,088	20,530	-	457,821	4,108,006
Shares issued	-	26,941	-	-	-	-	-	26,941
Exchange differences on translation of the financial statements of subsidiaries	-	-	153,371	-	-	-	-	153,371
Available-for-sale securities (note(i)):	-	-	-	(114,187)	-	-	-	(114,187)
- changes in fair value	-	-	-	1,479,070	-	-	-	1,479,070
- deferred tax recognized	-	-	-	145,934	-	-	-	145,934
- transferred to profit or loss	-	-	-	(1,739,191)	-	-	-	(1,739,191)
Profit for the year	-	-	-	-	-	-	1,549,072	1,549,072
Shares purchased for Share Award Scheme	-	-	-	-	-	(111,147)	-	(111,147)
Equity settled share-based transactions	-	-	-	-	2,806	-	-	2,806
At 31 December 2007	567,458	2,201,064	200,357	726,901	23,336	(111,147)	2,006,893	5,614,862

38 RESERVES (Continued)

(a) The Group (continued)

Notes:

	Reinsurance \$'000	Life insurance \$'000	2008 Property and casualty insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Note (i)					
Debt securities	(65,043)	1,380,585	64,848	(46,846)	1,333,544
Direct equity securities	(93,428)	(1,254,277)	(353)	(256,671)	(1,604,729)
Equity investment funds	-	(1,154,854)	(27,853)	-	(1,182,707)
Composite investment funds	(12,945)	-	-	-	(12,945)
	(171,416)	(1,028,546)	36,642	(303,517)	(1,466,837)
Deferred tax charged to reserves	7,165	290,503	(1,378)	6,911	303,201
Share of associates	-	-	-	(54,024)	(54,024)
Shared by minority interests	-	368,622	(17,505)	-	351,117
	(164,251)	(369,421)	17,759	(350,630)	(866,543)

	Reinsurance \$'000	Life insurance \$'000	2007 Corporate and other businesses \$'000	Total \$'000
Note (i)				
Debt securities	9,489	(2,386,703)	3,861	(2,373,353)
Direct equity securities	(99,922)	1,414,304	7,365	1,321,747
Equity investment funds	-	451,170	-	451,170
Composite investment funds	4,271	-	-	4,271
	(86,162)	(521,229)	11,226	(596,165)
Deferred tax charged to reserves	10,615	259,556	5,413	275,584
Share of associates	-	-	75,689	75,689
Shared by minority interests	-	130,705	-	130,705
	(75,547)	(130,968)	92,328	(114,187)

Included in the retained profits is an amount of \$3,928,000 (2007: loss of \$229,634,000), being the retained profits attributable to associates.

Included in the fair value reserve is an amount of \$46,505,000 (2007: \$80,880,000), being the fair value reserves attributable to associates.

38 RESERVES (Continued)
(b) The Company

	Share premium \$'000	Fair value reserve \$'000	Employee share-based compensation reserve \$'000	Shares held for Share Award Scheme \$'000	Retained profits \$'000	Total \$'000
At 1 January 2008	2,201,064	3,452	22,693	(99,687)	220,322	2,347,844
Shares issued	15,091	-	-	-	-	15,091
Available-for-sale securities:						
- Changes in fair value (note (i))	-	(80,223)	-	-	-	(80,223)
- Deferred tax recognized	-	5,706	-	-	-	5,706
Loss for the year	-	-	-	-	(152,582)	(152,582)
Dividend paid	-	-	-	-	(141,572)	(141,572)
Transferred to retained profits on disposal of revoked shares for Share Award Scheme	-	-	-	-	(6,446)	(6,446)
Shares disposed for Share Award Scheme	-	-	-	26,867	-	26,867
Share options exercised	2,093	-	(2,093)	-	-	-
Share options granted and vested	-	-	4,986	-	-	4,986
Shares awarded	-	-	17,879	-	-	17,879
At 31 December 2008	2,218,248	(71,065)	43,465	(72,820)	(80,278)	2,037,550
At 1 January 2007	2,174,123	20,772	20,530	-	9,592	2,225,017
Shares issued	21,895	-	-	-	-	21,895
Available-for-sale securities:						
- Changes in fair value (note (i))	-	(21,569)	-	-	-	(21,569)
- Deferred tax recognized	-	4,249	-	-	-	4,249
Profit for the year	-	-	-	-	210,730	210,730
Shares purchased for Share Award Scheme	-	-	-	(99,687)	-	(99,687)
Share options exercised	5,046	-	(5,046)	-	-	-
Share options granted and vested	-	-	7,149	-	-	7,149
Shares awarded	-	-	60	-	-	60
At 31 December 2007	2,201,064	3,452	22,693	(99,687)	220,322	2,347,844
				2008 \$'000		2007 \$'000
Note (i) Changes in fair value						
Debt securities				(45,695)		2,710
Direct equity securities				(34,528)		(24,279)
				(80,223)		(21,569)

38 RESERVES (Continued)

(c) Nature or purpose of reserves:

(i) *Capital reserve*

The capital reserve represents the differences between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration for the acquisition.

(ii) *Share premium*

The application of the share premium account is governed by Sections 48B and 49H of the Hong Kong Companies Ordinance.

(iii) *Exchange reserve*

The exchange reserve is comprised of all of the foreign exchange differences arising from the translation of the financial statements of the foreign operations into the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

(iv) *Fair value reserve*

The fair value reserve is comprised of the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policy set out in note 1(h)(iii).

(v) *Employee share-based compensation reserve*

The employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unexercised share options and unvested awarded shares granted to employees of the Group recognized in accordance with the accounting policy adopted for share based payments set out in note 1(ab)(i).

(vi) *Shares held for Share Award Scheme*

The Shares held for Share Award Scheme is the consideration paid, including any directly attributable incremental costs for purchase of Shares under the Share Award Scheme, in accordance with the accounting policy set out in note 1(ab)(ii).

(vii) *Revaluation reserve*

The revaluation reserve represents the restatement of fair value of the assets and liabilities from the acquisition of TPI relating to previously held interest in TPI.

39 EMPLOYEE RETIREMENT BENEFITS

The Group operates a MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employers and its employees are each required to make contributions to the MPF scheme at 5.0% of the employees' relevant income, subject to a cap of a monthly relevant income of \$20,000. Contributions to the scheme vest immediately.

As stipulated by the labour regulations of the PRC, certain subsidiaries of the Group participate in various defined contribution retirement plans authorized by municipal and provincial governments for its staff. These subsidiaries are required to contribute at a rate of 10.0% to 19.0% (2007: 19.0%) of the salaries, bonuses and certain allowances of their staff to the retirement plans. A member of the plans is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

The Group has no other material obligations for the payment of its staff's retirement and other post-employment benefits other than the contributions described above.

40 EQUITY COMPENSATION BENEFITS

(a) Share Options Scheme

The Group has two share option schemes. Under the Old Scheme, the directors of the Company were authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. Options granted between 24 May 2000 and 31 December 2002 were granted under the Old Scheme and in accordance with the requirements of Chapter 17 of the Listing Rules which came under effect on 1 September 2001.

A new share option scheme which is in line with the prevailing requirements of Chapter 17 of the Listing Rules was adopted on 7 January 2003.

All of the share options are settled in equity.

(i) Movements in share options

	2008 Number	2007 Number
At 1 January	20,701,000	28,590,000
Granted	350,000	1,150,000
Exercised (<i>note 37</i>)	(6,449,000)	(9,021,000)
Lapsed	-	(18,000)
At 31 December	14,602,000	20,701,000
Options vested at 31 December	14,334,000	20,167,000

40 EQUITY COMPENSATION BENEFITS (Continued)

(a) Share Options Scheme (continued)

(ii) Terms of unexpired and unexercised share options at the balance sheet date

Date granted	Exercise period	Exercise price \$	2008 Number	2007 Number
25 September 2000 to 9 October 2000	25 September 2000 to 8 October 2010	1.110	150,000	2,350,000
9 February 2001 to 17 February 2001	9 February 2001 to 16 February 2011	0.950	500,000	1,000,000
12 September 2002 to 23 September 2002	12 September 2002 to 22 September 2012	3.225	1,200,000	2,700,000
7 January 2003	7 January 2003 to 6 January 2013	3.975	-	156,000
5 January 2004	5 January 2004 to 4 January 2014	3.980	-	350,000
31 December 2004	27 January 2005 to 26 January 2015	3.200	-	350,000
2 November 2005 (<i>note(a)</i>)	23 November 2005 to 27 November 2015	2.875	11,077,000	11,945,000
30 December 2005	3 January 2006 to 2 January 2016	3.300	-	350,000
30 June 2006	30 June 2006 to 29 June 2016	5.000	-	175,000
29 December 2006	29 December 2006 to 28 December 2016	9.800	175,000	175,000
26 February 2007(<i>note(b)</i>)	26 February 2007 to 25 February 2017	9.490	800,000	800,000
29 June 2007	29 June 2007 to 28 June 2017	14.220	175,000	175,000
31 December 2007	31 December 2007 to 30 December 2017	21.400	175,000	175,000
30 June 2008	30 June 2008 to 29 June 2018	19.316	175,000	-
31 December 2008	31 December 2008 to 30 December 2018	11.920	175,000	-
			14,602,000	20,701,000

40 EQUITY COMPENSATION BENEFITS (Continued)**(a) Share Options Scheme (continued)****(ii) Terms of unexpired and unexercised share options at the balance sheet date (continued)***Notes:*

(a) No options lapsed during the year (2007: 18,000).

(b) 268,000 options were unvested, and have vesting periods up to 26 February 2009.

(iii) Details of share options (lapsed)/granted during the year, all of which were granted for \$1 in consideration

Exercise period	Exercise price \$	2008 Number	2007 Number
23 November 2005 to 27 November 2015	2.875	-	(18,000)
26 February 2007 to 25 February 2017	9.490	-	800,000
29 June 2007 to 28 June 2017	14.220	-	175,000
31 December 2007 to 30 December 2017	21.400	-	175,000
30 June 2008 to 29 June 2018	19.316	175,000	-
31 December 2008 to 30 December 2018	11.920	175,000	-
		350,000	1,132,000

40 EQUITY COMPENSATION BENEFITS (Continued)

(a) Share Options Scheme (continued)

(iv) Details of share options exercised during the year

Exercise date	Exercise price \$	Market value per share at exercise date \$	Proceeds received \$'000	Number
11 January	1.110	19.98	222	200,000
23 January	1.110	17.68	222	200,000
27 March	3.225	18.46	4,838	1,500,000
27 March	3.975	18.46	620	156,000
27 March	3.980	18.46	1,393	350,000
27 March	3.200	18.46	1,120	350,000
27 March	2.875	18.46	1,725	600,000
27 March	3.300	18.46	1,155	350,000
27 March	5.000	18.46	875	175,000
2 July	1.110	16.70	1,665	1,500,000
2 July	0.950	16.70	475	500,000
2 July	2.875	16.70	287	100,000
18 July	1.110	17.00	111	100,000
18 July	2.875	17.00	287	100,000
16 October	1.110	12.00	222	200,000
18 December	2.875	11.60	196	68,000
2008			15,413	6,449,000
2007			22,346	9,021,000

40 EQUITY COMPENSATION BENEFITS (Continued)

(a) Share Options Scheme (continued)

(v) Fair value of share options and assumptions

HKFRS 2 requires that, when the Group grants employees options to acquire shares of the Company, the Group recognizes the fair value of the options granted as an expense in the consolidated income statement with a corresponding increase in the employee share-based compensation reserve within equity.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes pricing model. The contractual life of the option is used as an input into this model.

Fair value of share options and assumptions:

2008

	Date of grant	
	30 June	31 December
Fair value at measurement date (\$)	12.47972	8.267513
Share price (\$)	18.600	11.92
Exercise price (\$)	19.316	11.92
Expected volatility (note i)	61.32%	72.76%
Option life (Year)	10	10
Expected dividends (note ii)	0.54%	0.84%
Risk-free interest rate (note iii)	3.469%	1.191%

2007

	Date of grant		
	26 February	29 June	31 December
Fair value at measurement date (\$)	5.095299	8.648458	14.44992
Share price (\$)	9.07	14.22	21.40
Exercise price (\$)	9.49	14.22	21.40
Expected volatility (note i)	42.97%	46.23%	59.18%
Option life (Year)	10	10	10
Expected dividends (note ii)	0.38%	0.38%	0.38%
Risk-free interest rate (note iii)	4.206%	4.775%	3.441%

Notes:

- (i) The expected volatility is based on the historical volatility of the share price one year immediately preceding the grant date.
- (ii) Expected dividends are based on historical dividends since the listing of the Company.
- (iii) Risk-free interest rate is based on the yield of the 10-year Hong Kong Exchange Fund Note.

Share options were granted under a service condition. This condition has not been taken into account in the fair value measurement of the services received on the grant date. There were no market conditions associated with the share option grants.

40 EQUITY COMPENSATION BENEFITS (Continued)

(b) Share Award Scheme

The purpose of the Share Award Scheme is to recognize and reward certain employees (including without limitation an employee who is also a director) of the Group and CIHC and its subsidiaries for their contributions to the Group and to give long-term incentives for retaining them for the continued operations and development of the Group.

The Share Award Scheme of the Company was adopted by the Board on 10 September 2007. A summary of the principal terms of the Share Award Scheme is set out in the Share Award Scheme Section of the Report of the Directors.

(i) Movements in the number of awarded shares and their related average fair value were as follows:

	2008 Number	2007 Number
At 1 January	3,286,000	-
Awarded (note a)	594,000	3,286,000
Revoked (note b)	(556,500)	-
At 31 December (note c)	3,323,500	3,286,000

Notes:

- (a) Included in the total number of awarded shares, 366,000 shares are purchased from the market during the year (2007: 3,286,000 shares).
- (b) The amount represents awarded shares lapsed automatically, according to the conditions under the Employees' Share Award Scheme.
- (c) At the end of the year the average fair value per share of \$21.59 (2007: \$21.44). The average fair value of the awarded shares is based on the closing price at the date of award and any directly attributable incremental costs.

Apart from the awarded shares, as at 31 December 2008, 1,396,500 shares (2007: 1,968,000 shares) are deemed as unallocated shares which are held under Share Award Scheme and are available for future award and/or disposal pursuant to the rules of Share Award Scheme.

(ii) The remaining vesting periods of the awarded shares outstanding are as follows:

Remaining vesting period	At 31 December 2008 Number of awarded shares	Remaining vesting period	At 31 December 2007 Number of Awarded shares
1 year to 2 years	3,323,500	2 years to 3 years	3,286,000

41 MATURITY PROFILE

(a) The Group

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
At 31 December 2008							
Assets							
Deposits at banks and other financial institutions (including statutory deposits)	1,620,479	1,139,268	2,164,441	610,639	4,992,594	-	10,527,421
Money market funds	1,462,825	-	-	-	-	-	1,462,825
Pledged deposits at bank	-	102,453	-	-	-	-	102,453
Certificates of deposit (under held-to-maturity)	-	38,750	-	203,750	-	-	242,500
Certificates of deposit (under available-for-sale)	-	-	-	136,770	-	-	136,770
Debt securities (under held-to-maturity)	-	648,179	643,712	1,481,278	17,988,478	-	20,761,647
Debt securities (under available-for-sale)	943,430	70,413	311,340	4,947,851	19,462,660	131,487	25,867,181
Debt securities (under designated at fair value)	60,562	354,581	3,263	235,823	165,895	34,063	854,187
Debt securities (under loan and receivable)	-	-	-	-	2,165,806	-	2,165,806
Loans and advances	-	380,541	-	-	-	-	380,541
	4,087,296	2,734,185	3,122,756	7,616,111	44,775,433	165,550	62,501,331

41 MATURITY PROFILE (Continued)

(a) The Group (continued)

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
At 31 December 2007							
Assets							
Deposits at banks and other financial institutions (including statutory deposits)	505,734	2,253,553	418,681	4,731,096	-	-	7,909,064
Money market funds	393,259	-	-	-	-	-	393,259
Pledged deposits at bank	-	-	97,417	-	-	-	97,417
Certificates of deposit (under held-to-maturity)	-	-	-	243,910	-	-	243,910
Certificates of deposit (under available-for-sale)	-	-	-	135,326	-	-	135,326
Debt securities (under held-to-maturity)	-	10,276	290,539	243,689	230,660	-	775,164
Debt securities (under available-for-sale)	-	-	147,178	6,270,405	19,394,635	-	25,812,218
Debt securities (under designated at fair value)	26,627	20,776	62,287	192,000	158,519	63,696	523,905
Debt securities (under loan and receivable)	-	-	-	106,794	149,512	-	256,306
Loans and advances	-	-	276,219	-	-	-	276,219
	<u>925,620</u>	<u>2,284,605</u>	<u>1,292,321</u>	<u>11,923,220</u>	<u>19,933,326</u>	<u>63,696</u>	<u>36,422,788</u>

41 MATURITY PROFILE *(Continued)*

(b) The Company

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
At 31 December 2008							
Assets							
Deposits at banks and other financial institutions	116,982	133,159	24,325	-	-	-	274,466
Debt securities	-	-	30,281	255,555	116,807	-	402,643
	<u>116,982</u>	<u>133,159</u>	<u>54,606</u>	<u>255,555</u>	<u>116,807</u>	<u>-</u>	<u>677,109</u>
At 31 December 2007							
Assets							
Deposits at banks and other financial institutions	86,517	551,121	132,615	-	-	-	770,253
Debt securities	-	-	-	135,326	39,004	-	174,330
	<u>86,517</u>	<u>551,121</u>	<u>132,615</u>	<u>135,326</u>	<u>39,004</u>	<u>-</u>	<u>944,583</u>

42 FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as of 31 December 2007 and 2008, except for held-to-maturity investments as set out in note 19(a)(i) and interest-bearing notes as set out in note 32.

(b) Estimation of fair values

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

43 ACQUISITION OF SUBSIDIARY

On 15 July 2008, the Group acquired additional 10.025% equity interest of TPI by contributing additional capital of RMB157,393,000 (approximately HK\$179,878,000) into TPI. With this capital contribution, the Group's equity interest in TPI increased from 40.025% to 50.05%.

The net assets acquired in the transaction and the goodwill arising are as follows:

	TPI's carrying amount before combination \$'000	Provisional fair value adjustment \$'000	Provisional fair value \$'000
Net assets acquired:			
Statutory deposits	296,644	-	296,644
Property and equipment	401,953	55,481	457,434
Prepaid lease payments	100,973	-	100,973
Investments in debt and equity securities	1,739,218	-	1,739,218
Insurance debtors	479,756	-	479,756
Reinsurers' share of insurance contract provisions	888,348	-	888,348
Other debtors	155,567	-	155,567
Deposits at banks with original maturity more than three months	190,096	-	190,096
Cash and cash equivalents	943,395	-	943,395
Less:			
- Unearned premium provisions	(2,430,084)	-	(2,430,084)
- Provision for outstanding claims	(1,550,105)	-	(1,550,105)
- Deferred tax liabilities	-	(13,870)	(13,870)
- Other liabilities	(620,590)	-	(620,590)
Net assets	595,171	41,611	636,782
Minority interests			(278,157)
Equity interest held originally as interests in associates			(146,333)
Cash contributed by the Group to maintain its original interests in TPI			(123,503)
Revaluation increase in net assets attributable to interests originally held by the Group			(16,655)
Goodwill (<i>note</i>)			107,744
			179,878
Total consideration satisfied by cash			179,878
Net cash inflow arising on acquisition:			
Cash consideration paid			179,878
Less : cash and cash equivalents acquired			(943,395)
			(763,517)

43 ACQUISITION OF SUBSIDIARY (Continued)

Note:

- (a) The goodwill of \$107,744,000 were attributable to the difference between the consideration and the fair value of the underlying assets and liabilities acquired. The goodwill arose in the business combination because the consideration paid for the business combination effectively included the amounts in relation to the benefit of premium growth, future market development and the build up of economies of scale which enabled TPI to generate sustainable and consistent profitability in future. The Board is in the process of determining whether these future economic benefits can be reliably measured and recognized separately from goodwill. As such, the goodwill arising from the acquisition of above subsidiary may be subject to adjustment.

TPI contributed \$167,245,000 to the Group's loss for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group's gross premium written for the year would have been \$27,825,329,000, and loss for the year attributable to equity holders would have been \$331,525,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor, is it intended to be as projection of future results.

44 COMMITMENTS

- (a) Capital commitments outstanding as of 31 December 2008 which have not been provided for in the consolidated financial statements were as follows:

	2008 \$'000	2007 \$'000
Contracted for	246,441	25,788

- (b) As of 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2008 \$'000	2007 \$'000
Within 1 year	241,062	101,101
After 1 year but within 5 years	331,466	99,059
After 5 years	8,766	111
	581,294	200,271

The Group leases a number of properties under operating leases. The leases typically run for an initial period of 1 to 6 years, with an option to renew the leases when all terms are renegotiated. Lease payments are usually reviewed annually to reflect market rentals. None of the leases includes contingent rentals.

45 CONTINGENT LIABILITIES

The Group has received a query issued by the Inland Revenue Department of Hong Kong in relation to the taxability of certain investment income from its offshore investments for the years of assessment from 1999 to 2006. The directors consider that the Group has a strong legal base to support its tax position. As such, no provision for a potential tax exposure of approximately \$31,600,000 (2007: \$31,600,000) was made as of 31 December 2008.

Save as herein disclosed and other than those incurred in the normal course of the Group's insurance businesses, there was no outstanding litigation nor any other contingent liabilities as of 31 December 2008.

46 MATERIAL RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions entered into between the Group and its related parties during the year:

	<i>Note</i>	2008 \$'000	2007 \$'000
Recurring transactions			
Business ceded by related companies:	(i)		
- Gross premiums written		116,549	241,541
- Commission expenses paid		32,164	72,946
Investment management fee and redemption income	(ii)	8,585	18,989

Notes:

- (i) Certain fellow subsidiaries of the Group ceded business to and received commission from a subsidiary of the Company.
- (ii) A subsidiary of the Company provided investment consultancy services to and received investment management fees and redemption income from certain fellow subsidiaries of the Group.

Apart from the above, the Group has entered into the following non-recurring transactions with related parties:

- (a) On 20 March 2008, TPL entered into a Joint Bidding Agreement with TPI, CIHC and The Ming An Insurance Company (China) Limited ("Ming An China") in relation to the purchase of a piece of land in Shenzhen and development of a commercial office building. The amount to be invested by TPL was agreed to be RMB289,000,000.

46 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

- (b) On 30 June 2008, CIIH entered into the conditional capital contribution agreement with CIHC, ICBC (Asia) and TPI pursuant to which CIHC and the Company agreed to contribute, in cash, in aggregate an amount of RMB270,000,000 as additional registered capital into TPI. Of the aggregate amount, RMB4,540,000 was to be contributed by CIHC and RMB265,460,000 was to be contributed by CIIH. ICBC (Asia) decided to not participate in the capital contribution. TPI is an associated company of the Company, in which CIIH holds a 40.025% equity interest prior to the capital contribution. Upon completion, each of CIHC, the Company and ICBC (Asia) was directly interested in 42.020%, 50.050% and 7.930%, respectively, of the equity interests in TPI. On 30 June 2008, CIHC, CIIH and ICBC (Asia) also entered into the conditional option deed pursuant to which CIHC agreed to grant the right to ICBC (Asia) at nil consideration to, conditional upon completion, acquire from CIHC the equity interest of approximately 1.647% in TPI as enlarged by the capital contribution for a consideration of RMB25,858,900 within six months from the date of the option deed, or such later date as the parties may extend pursuant to the terms of the option deed. The option will be exercisable at the option of ICBC (Asia), and if exercised by ICBC (Asia), will have to be exercised in full. The Company has waived its right to purchase the option interest if the option is exercised by ICBC (Asia). The capital contribution agreement and the option deed were approved by the Independent Shareholders of CIIH at an extraordinary general meeting of the Company held on 15 July 2008.
- (c) On 5 November 2008, TPI and TPL entered into a supplemental agreement in relation to the purchase of land and the development of the property in Shenzhen with CIHC and Ming An China to amend the total investment amount from the parties as set out in the joint bidding agreement dated 20 March 2008. According to the joint bidding agreement, the percentages of the total investment amount for the transaction required from each of TPI, CIHC, TPL and Ming An China were 15%, 55%, 15% and 15%, respectively. Under the supplemental agreement, the percentages of the total investment amount for the transaction required from each of TPI, CIHC, TPL and Ming An China was amended to be 15%, 5%, 65% and 15%, respectively. TPI and TPL are expected to invest a total of approximately RMB289,000,000 and RMB1,251,000,000, respectively, for the transaction under the supplemental agreement. The purchase of the land was completed in April 2008 and the construction of the property is expected to commence in early 2009 and will last for a period of three years with a tentative completion date set to be in the second half of 2011. The joint bidding agreement and supplemental agreement were approved by the independent shareholders of CIIH at an extraordinary general meeting of the Company held on 9 December 2008.
- (d) On 9 July 2007, the Company entered into a conditional capital contribution agreement with CIHC, ICBC (Asia) and TPI pursuant to which CIHC and the Company will contribute, in cash, an aggregate amount of RMB300,000,000 as additional registered capital into TPI. Of the aggregate amount, RMB179,925,000 will be contributed by CIHC and RMB120,075,000 will be contributed by the Company. ICBC (Asia) has decided to not participate in the capital contribution. Upon completion, each of CIHC, the Company and ICBC (Asia) will be directly interested in 50.398%, 40.025% and 9.577%, respectively, of the equity interests in TPI. The percentage of equity interests held by the Company in TPI will remain unchanged after completion. In addition, CIHC, the Company and ICBC (Asia) also entered into the conditional option deed pursuant to which CIHC has agreed, conditional upon completion, to grant the right to ICBC (Asia) at nil consideration to acquire from CIHC an equity interest of approximately 2.873% in TPI as enlarged by the capital contribution for a consideration of RMB37,350,000 within twelve months from the date of the option deed, or such later date as the parties may extend pursuant to the terms of the Option Deed. The Company has waived its right to purchase this Option Interest if the Option is exercised by ICBC (Asia).

46 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organizations (collectively “State-Owned Entities”). During the year, the Group had transactions with State-Owned Entities including but not limited to the sales of insurance policies and banking related services. These transactions are conducted in the ordinary course of the Group's insurance business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for its major insurance products. Such pricing strategy and approval processes do not depend on whether the customers are State-Owned Entities or not. Having due regard to the substance of the relationships, the directors believe that none of these transactions are material related party transactions that require separate disclosure.

The Group considers that the key management personnel of the Group include the directors of the Company only. Their remuneration is disclosed in note 9 to the consolidated financial statements.

47 ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements under HKFRSs requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosures. Changes in assumptions may have a significant impact on the financial statements in the periods where the assumptions are changed. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of goodwill

The Group assesses annually if the goodwill associated with the acquisition of subsidiaries and associates have suffered any impairment losses in accordance with the accounting policy stated in note 1(o). The recoverable amount of the goodwill is determined using discounted cash flows which require the use of estimated revenue from business operations, investment returns and an appropriate discount rate.

47 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold the assets to maturity as held-to-maturity investments. In making this judgment, the Group evaluates its intention and ability to hold such investments until maturity.

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group would have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale investments, as such portfolio of investments would be deemed to have been tainted. This would result in the held-to-maturity investments being measured at fair value instead of at amortized cost.

(c) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether there has been a significant or prolonged decline in the fair value of an investment in available-for-sale financial assets below its cost. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

(d) Determination of insurance liabilities

The Group's insurance liabilities are mainly comprised of unearned premium provisions, provision for outstanding claims and life insurance funds and estimates for premiums and claims data not received from ceding companies at the date of the consolidated financial statements. The Group determines these estimates on the basis of historical information, actuarial analyzes, financing modeling and other analytical techniques. The directors continually review the estimates and make adjustments as necessary, but actual results could differ significantly from what is envisioned when these estimates are made.

48 PARENT AND ULTIMATE HOLDING COMPANIES

The directors consider the immediate holding company and the ultimate holding company as of 31 December 2008 to be China Insurance H.K. (Holdings) Company, Limited (incorporated in Hong Kong) and China Insurance (Holdings) Company, Limited (established in the PRC), respectively.

49 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

		Effective for annual periods beginning on or after:
HKFRSs (Amendments)	Improvements to HKFRSs	1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	1 January 2009
HKAS 39 (Amendment)	Eligible hedged items	1 July 2009
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
HKFRS 2 (Amendment)	Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 7 (Amendment)	Improving disclosures about financial instruments	1 January 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) - INT 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) - INT 15	Agreements for the construction of real estate	1 January 2009
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation	1 October 2008
HK(IFRIC) - INT 17	Distribution of non-cash assets to owners	1 July 2009
HK(IFRIC) - INT 18	Transfers of assets from customers	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application.

50 SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated and Company balance sheets, consolidated income statement, consolidated statement of changes in equity, consolidated cashflow statement and the related notes thereto for the year ended 31 December, 2008 as set out in the announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the announcement.

FIVE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

Results

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Revenue					
Gross premiums written and policy fees	25,003,796	17,933,997	12,373,454	8,611,673	7,307,809
Less: Premiums ceded to reinsurers	(730,318)	(277,403)	(222,920)	(267,726)	(217,028)
Net premiums written and policy fees	24,273,478	17,656,594	12,150,534	8,343,947	7,090,781
Change in unearned premium provisions, net of reinsurance	(64,853)	(7,912)	(216,961)	(125,913)	(49,288)
Net earned premiums and policy fees	24,208,625	17,648,682	11,933,573	8,218,034	7,041,493
Investment income	280,486	6,671,765	2,384,094	814,573	459,648
Net exchange (loss)/gain	(119,197)	(31,121)	22,836	(94,892)	32,917
Other income	84,563	64,933	39,781	15,056	37,615
Total revenue	24,454,477	24,354,259	14,380,284	8,952,771	7,571,673
Benefits, losses and expenses					
Net policyholders' benefits	(6,248,410)	(5,062,155)	(2,365,092)	(1,422,941)	(1,006,929)
Net commission expenses	(2,561,811)	(1,997,156)	(1,194,817)	(809,157)	(652,230)
Administrative and other expenses	(3,798,238)	(2,228,343)	(1,466,531)	(1,179,857)	(678,911)
Change in life insurance funds, net of reinsurance	(11,742,512)	(11,849,470)	(8,229,133)	(5,785,225)	(5,326,361)
Goodwill impairment and amortization	(73,276)	-	-	(250,000)	(27,767)
Total benefits, losses and expenses	(24,424,247)	(21,137,124)	(13,255,573)	(9,447,180)	(7,692,198)
Profit/(loss) from operations	30,230	3,217,135	1,124,711	(494,409)	(120,525)
Share of (losses)/profits of associates	(115,848)	(57,760)	4,070	(48,728)	(35,546)
Finance costs	(183,383)	(148,467)	(144,184)	(88,299)	(85,434)
(Loss)/profit before taxation	(269,001)	3,010,908	984,597	(631,436)	(241,505)
Income tax credit/(charge)	63,240	(553,711)	(326,256)	36,083	52,251
(Loss)/profit after taxation	(205,761)	2,457,197	658,341	(595,353)	(189,254)
Attributable to:					
Equity holders of the Company	(299,715)	1,549,072	510,765	(433,763)	(22,935)
Minority interests	93,954	908,125	147,576	(161,590)	(166,319)
	(205,761)	2,457,197	658,341	(595,353)	(189,254)

FIVE YEAR FINANCIAL SUMMARY (Continued)

(Expressed in Hong Kong dollars)

	2008 \$'000	2007 \$'000	2006 \$'000	2005 \$'000	2004 \$'000
Assets and liabilities					
Statutory deposits	995,330	653,239	547,443	487,806	437,947
Fixed assets	3,276,465	1,391,707	1,140,767	659,507	500,599
Goodwill	364,845	228,185	228,185	228,185	478,185
Interest in associates	134,382	530,436	350,678	315,298	351,595
Deferred tax assets	22,353	2,648	2,697	3,298	72,624
Investments in debt and equity securities	56,863,866	40,502,185	25,553,330	18,122,506	11,249,681
Amounts due from group companies	11,455	17,488	7,036	314	555
Insurance debtors	1,026,222	616,540	453,167	342,060	298,811
Reinsurers' share of insurance contract provisions	1,421,962	376,740	391,907	472,176	485,517
Other debtors	2,071,499	1,431,352	562,340	608,778	389,972
Tax recoverable	1,640	-	3,581	5,585	6,378
Pledged deposits at bank	102,453	97,417	93,676	97,980	76,533
Cash and cash equivalents and deposits at bank with original maturity more than three months	14,522,917	9,769,612	10,718,860	5,990,288	2,990,980
Total assets	80,815,389	55,617,549	40,053,667	27,333,781	17,339,377
Less: Total liabilities	(73,576,142)	(47,521,867)	(34,471,026)	(23,910,536)	(13,916,070)
Minority interests	(2,642,628)	(2,410,056)	(1,404,322)	(916,087)	(780,847)
	4,596,619	5,685,626	4,178,319	2,507,158	2,642,460
Share capital	71,086	70,764	70,313	66,824	66,585
Reserves	4,525,533	5,614,862	4,108,006	2,440,334	2,575,875
	4,596,619	5,685,626	4,178,319	2,507,158	2,642,460
	<i>cents</i>	<i>cents</i>	<i>cents</i>	<i>cents</i>	<i>cents</i>
(Loss)/earnings per share					
Basic	(21.2)	110.2	38.1	(32.5)	(1.7)
Diluted	(21.2)	108.3	37.7	(32.4)	(1.7)

CORPORATE INFORMATION

DIRECTORS

Executive directors

Lin Fan	<i>Chairman</i>
Song Shuguang	<i>Vice Chairman</i>
Xie Yiqun	
He Zhiguang	
Ng Yu Lam Kenneth	<i>Chief Executive Officer</i>
Shen Koping Michael	<i>Deputy Chief Executive Officer</i>
Lau Siu Mun Sammy	

Non-executive directors

Li Tao
Wu Jiesi*
Che Shujian*
Lau Wai Kit*

** Independent*

COMPANY SECRETARY

Chan Man Ko *Chief Financial Officer*

AUTHORIZED REPRESENTATIVES

Ng Yu Lam Kenneth
Shen Koping Michael

REGISTERED OFFICE

12th Floor, Ming An Plaza Phase II
8 Sunning Road
Causeway Bay
Hong Kong
Telephone : (852) 2864 1999
Facsimile : (852) 2866 2262
E-mail : mail@ciih.com

REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
CITIC Ka Wah Bank Limited

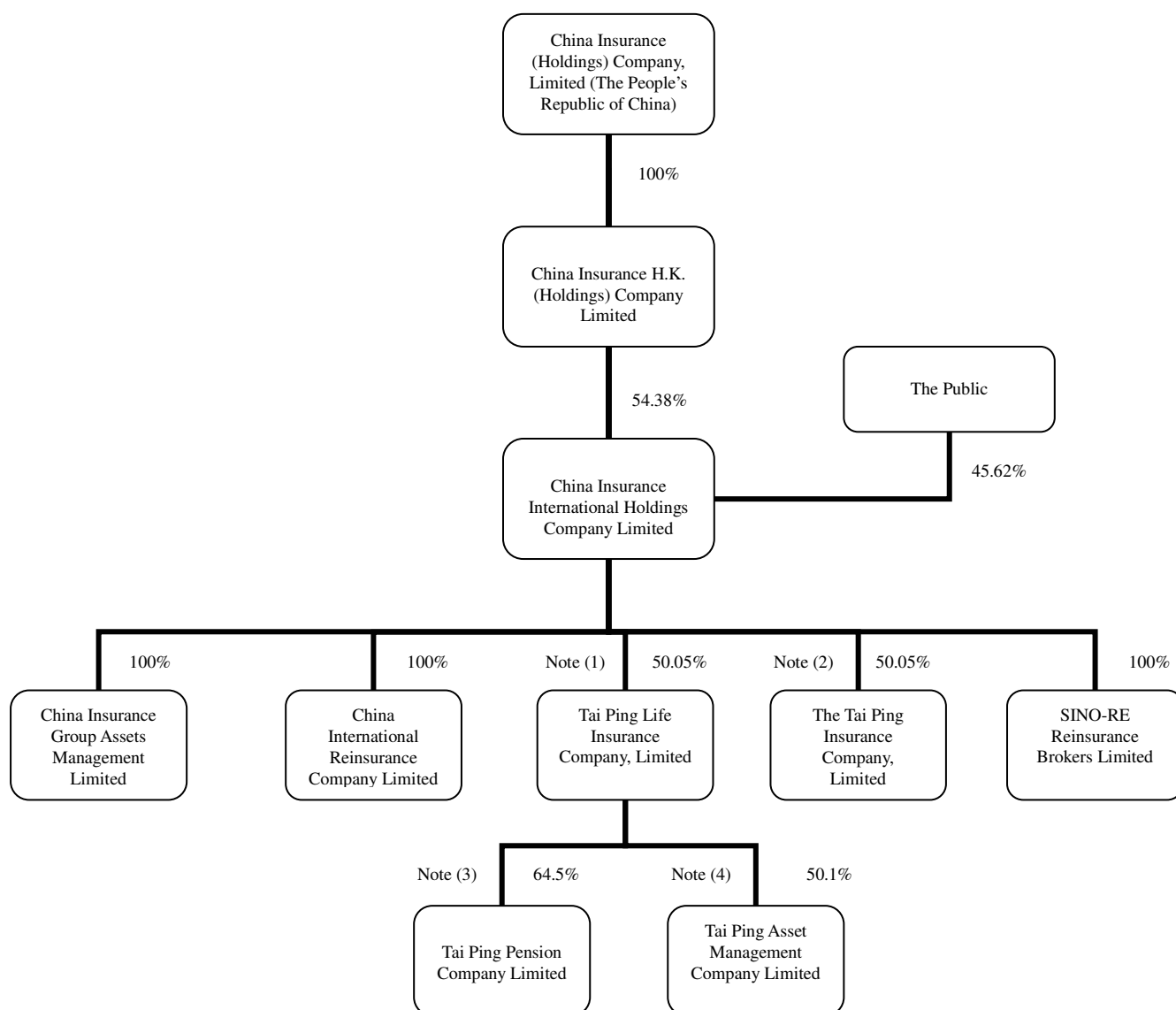
WEBSITE

www.ciih.com

STOCK MARKET LISTING

The Main Board of The Stock Exchange
of Hong Kong Limited
(Stock Code: 966)

CORPORATE STRUCTURE



Note (1): CIHC and Fortis own the remaining 25.05% and 24.90% equity interests in TPL, respectively.

Note (2): CIHC and ICBC (Asia) own the remaining 42.02% and 7.93% equity interests in TPI, respectively.

Note (3): Together with the 14% and 7.5% equity interests held by CIGAML and TPI, respectively, the Group's effective interest in TPP is 50.03%. CIHC and Fortis own the remaining 4% and 10% equity interests in TPP, respectively.

Note (4): Together with the 12% and 9.9% equity interests held by CIGAML and TPI, respectively, the Group's effective interest in TPAM is 42.03%. CIHC and Fortis own the remaining 20% and 8% equity interests in TPAM, respectively.

(As at 31 December 2008)

CHAIRMAN'S STATEMENT

Dear Shareholders,

It has always been a great honor for me to be a part of the directors and senior management of China Insurance International Holdings Company Limited ("CIIH" or "the Company"). Now, it is an even greater honor for me to be able to report to you, our shareholders and partners, for the first time as Chairman of our Company. Throughout the years, we have always stated very clearly to you that our primary objective and goal is to create and produce long-term shareholder value to all of our investors and partners. This principle, I guarantee you, will not change now or in the future. Everything that we try to do and pursue, whether strategically for the long term or in managing our various operations on a day-to-day basis, is done so with this basic tenet in mind. We believe that our efforts have been successful in building up our operations to where they are today, and we fully intend to continue developing our businesses along such lines now and into the future.

In 2006 and 2007, the insurance industry in China, along with financial institutions from around the world, benefited from extraordinary investment gains, particularly in equity investments. In China, the A-share markets in Shanghai and Shenzhen, as well as the equity indices in Hong Kong, recorded significant share price appreciation during this time, and the financial results of CIIH and other insurance companies in China benefited substantially as a result. CIIH was able to record consecutive record setting years in profitability in 2006 and 2007, primarily because of the extraordinary investment gains from the equity markets.

In 2008, the financial conditions of global financial institutions and that of the global financial system itself witnessed sharp reversals. After experiencing one of the strongest bull markets in history in 2006 and 2007, the world suddenly found itself in 2008 in one of the most difficult and sharpest bear markets in history, financially and economically. With major financial institutions disappearing overnight or requiring emergency government bailouts, the financial turmoil and volatility of the markets reached unprecedented levels. In such a market environment, almost everyone – entities, institutions, funds, individuals – with investments in the capital markets were negatively affected. In such an extraordinarily adverse trading environment, CIIH was not immune, and was not able to avoid a significant decline in investment income, primarily from its equity investments in shares traded in the A-share markets and in Hong Kong. Simultaneously, our property and casualty insurance operations at TPI incurred significant operating losses due to rapid business expansion and higher claims expenses from natural disasters, our pension operations at TPP incurred more-than-expected operating losses due to its early stage of development, and we recognized impairment on the remaining goodwill associated with the acquisition of CIGAML. This combination of factors caused CIIH to record a consolidated loss of HK\$299.72 million in 2008.

We are not pleased with this result. We feel that we could have, and should have, done better. Unfortunately, no one could have predicted the grave negative impacts and implications the global financial crisis has had, nor its depth and reach. As such, we are more determined than ever to produce strong results for our shareholders in the future. Despite our consolidated financial loss, our fundamental businesses at our reinsurance and life insurance operations remain strong and well-positioned, and continue to develop according to plan. CIRe and TPL are both now laying the foundations for further growth, greater scale and sustainable profitability into the future. In 2008, the economy and insurance industries of the PRC continued to expand at an attractive level, despite the global economic and financial turmoil, and CIIH was able to produce solid growth at all of its business lines. In 2008, CIIH's gross premiums written and policy fees increased significantly to HK\$25,003.80 million from HK\$17,934.00 million in the Last Year, representing a strong increase of 39.4%.

In 2008, our reinsurance operation, CIRE, produced a small net profit attributable to shareholders of HK\$51.85 million versus the record profit of HK\$579.69 million achieved Last Year. The decline in profit was primarily due to equity investment losses on shares traded in Hong Kong. Despite the decline in the bottom line, CIRE's result is satisfactory given the very challenging reinsurance market and investment conditions prevalent during this time. Moreover, during the Year, CIRE maintained its strong position in all of its core markets. CIRE successfully opened and began operations at its Beijing branch, which is an important milestone for our future reinsurance initiatives in Mainland China. The reinsurance market of the PRC has vast long-term potential, and CIRE is now very well-positioned to participate in this highly attractive market, which is already its single largest geographic market. CIRE continued to maintain its leading position in its traditional core markets of Hong Kong & Macau, as well as other countries in the Asian region at reasonable terms and conditions. As such, CIRE's reinsurance gross premiums written increased to HK\$1,839.00 million from HK\$1,681.21 million in the Last Year, representing a solid increase of 9.4%.

In 2008, TPL's profit attributable to equity holders was HK\$440.68 million, versus the HK\$1,018.06 million in earnings Last Year. The decrease in profitability at our life insurance operations was primarily due to the lower overall investment yield of the investment portfolio, primarily caused by equity investment losses in the A-share markets. TPL's core operations, however, remain very strong and very promising. The life insurance operations recorded premiums of HK\$21,207.79 million, representing an increase of 30.6% from the HK\$16,245.25 million produced in the Last Year. TPL's strong increase in premium income was driven by a higher number of individual agents, productivity improvements among the overall agency force, and resurgence in demand from our clients in the bancassurance channel.

Other highlights and important events of 2008 included the following:

- During the Year, there was a significant increase in catastrophes in China and worldwide relative to 2006 and 2007, during which time there were almost no major catastrophes. As such, CIRE experienced higher catastrophe-related claims in 2008. However, the financial impact of these higher claims levels has been ameliorated by CIRE's retrocession protections. Part of these retrocession arrangements were put into place by CIRE in the Last Year, during which time there were no major catastrophes. The underwriting result was further improved by the release of redundant loss provisions conservatively set against the claims liabilities of earlier years. Thus, despite a higher incidence of catastrophe claims, CIRE was able to produce a strong underwriting profit of HK\$222.43 million for the Year compared to HK\$108.64 million in the Last Year.
- During the Year, at TPL, with the outlook of the A-share equity markets uncertain, TPL curtailed the sales of its unit linked products, which fell significantly to HK\$2,053.06 million from HK\$4,274.36 million in the Last Year, representing a decrease of 52.0%. This decline in premium, however, was more than made up for by the strong increase in demand for non unit-linked products, which sharply increased to HK\$19,154.73 million from HK\$11,970.89 million in the Last Year, representing an increase of 60.0%. The strength of the non unit-linked product sales was apparent in both the individual agency distribution channel and the bank distribution channel. Non unit-linked premiums distributed through the individual agency force increased to HK\$4,403.09 million from HK\$2,501.32 million in the Last Year, representing an increase of 76.0%. In the bank distribution channel, non unit-linked premiums increased to HK\$13,604.75 million from HK\$8,208.53 million in the Last Year, representing an increase of 65.7%.

- TPL's strategy over the past few years has been to gradually increase, within its sales of non unit-linked products, the proportion of those products with regular premium. This key parameter is one of the most important priorities of the senior management and professionals of the life insurance operations. During the Year, regular premium products accounted for 99.0% (2007: 98.5%) and 22.9% (2007: 17.6%) of the total non unit-linked product sales produced by TPL's individual agents and bancassurance channels, respectively. Such higher proportion of regular premium product sales is very encouraging, and will continue to be the focus of TPL in the years to come. Regular premium products have higher profit margins from an actuarial perspective and as such constitute much higher quality business for the life insurance operations.
- The higher proportion of regular premium products and their higher profitability is reflected in the significantly higher embedded value and new business value figures of TPL for 2008. We have again disclosed to you in our Annual Results our latest actuarial figures. Despite adopting more conservative assumptions, in particular for the long-term investment yield to take into account the, uncertain investment outlook in the near term, the actuarial valuation of TPL has increased significantly over that of Last Year. Although increasing in absolute size, the expense overrun, relative to the value of business in force and new business value, has also improved over the past twelve months. We are greatly encouraged by this continued positive development of the profitability of our business, and we strongly believe that this is the true and best measure of our efforts to bring value to our shareholders.

2009 will be a critically important operational year for CIIH. With financial turbulence and volatility continuing in global capital markets, and deepening concerns of possibly significant and long recessions in many of the world's economies, difficult challenges face the economy and financial institutions of the PRC. Despite the uncertainties and adversities likely to come in the next twelve months, we continue to be cautiously optimistic about all of our core operations, and believe that many opportunities for attractive growth and expansion are now emerging. With the turmoil of the financial markets negatively impacting the financial strength of many global reinsurers, reinsurance capacity has decreased at a time when natural disasters and catastrophes have increased in frequency. As a result, CIRE believes that the reinsurance pricing cycle is beginning to turn more favorably to reinsurers. CIRE therefore believes that now is a prime opportunity to acquire premium at attractive pricing, terms and conditions. Within its core markets in Asia, CIRE is optimistic about business growth and development prospects in the short- to medium-term. With the opening of the Beijing branch, CIRE's prospects and capabilities for serving the vast potential of the reinsurance markets of Mainland China have improved substantially. In pursuing such opportunities, however, CIRE will continue to focus on its risk management principles and strictly adhere to its long established conservative underwriting policies in controlling its risks and exposures.

In 2009, TPL has launched a major initiative to further reinforce and strengthen its prioritization of regular premium sales. TPL intends to grow its regular premium sales at both its individual agency and bancassurance distribution channels at rates which are much higher than industry averages. Sales and management professionals at all levels of management will be evaluated and assessed based on regular premium sales production, which will be heavily weighted in the overall evaluation. Overall, TPL is highly confident that its strategic prioritization of regular premium sales in the years to come is the best next step for the life insurance operations, and is the most optimal and prudent strategy to take under any macroeconomic condition or scenario in the PRC now and in the future.

Following the incredibly volatile investment years of 2006, 2007 and 2008, we are now very cautious with our expectations on investments, given the tremendous volatility and unpredictability the past years have seen. For 2009, we will continue to assume and target conservative and stable investment yields over the long term for our investment portfolios in both Hong Kong and the PRC. If we are able to achieve this conservative objective, then the overall profitability of our operations should be one of the best in the PRC and the world. Overall, long-term, I feel as strongly and confidently as ever that the future is bright for all of our operations and businesses at CIIH. Our Company is continuing to make steady and gradual process in building itself up to becoming one of the best, strongest and most profitable financial institutions in the PRC.

It is truly an honor for me to lead CIIH. I sincerely believe that the global financial and economic crisis, from which we will undoubtedly survive and grow stronger, represents a test for our resolve and persistence in following our principles and standards. We can and we will recover from the current economic difficulties, and we will then be well-positioned to rise even higher. It is our utmost objective at CIIH to become one of the best and most respected financial institutions in China and the world. This goal is shared by all of the senior managers and directors of the Company. When economic and financial times and environments are good, our work and lives are more predictable and straightforward. It is times such as these, with economic and financial conditions at their worst in history, when our senior managers, directors and all of our employees must rise to the occasion and perform. It is when times are bad and at their most difficult that all of us at CIIH must maintain our strict discipline and highest levels of commitment to world-class standards in operations, corporate governance, investor relations and transparency. Only with such discipline and dedication can we best serve the interests of our shareholders over the long term, and become one of the best companies in the world.

On behalf of all of us at CIIH, I would like to wholeheartedly and sincerely thank you for being so trusting and supportive of us over the past years! Thank you also very much for continuing to believe in us during this most difficult time! One special characteristic of our culture is that we have a very long-term outlook and view of business and the world. With a view to the long term, it is possible to see 2008 as being not too unusual and a year which may happen again in the future. We have had good economic/financial cycles in the past, and we have had bad economic/financial cycles in the past. These cycles will be repeated in the future. And, there is no question that, every now and then, we will have years in which economic/financial conditions are as bad, if not worse, than what we just experienced in 2008. The key is for our Company to build up our operations to be able to withstand such unforeseen and unexpected negative events, such that we can emerge stronger and better when conditions inevitably improve. We need to be prepared, as professionals and as a Company, for such unforeseen, but inevitable, events. We believe that we have made strong progress in building upon such a philosophy, and that we will emerge stronger than ever one day soon. As such, given our long-term outlook, we are very confident in saying to our shareholders and investors that the best is yet to come for us and for you, and that we look forward to continuing our communications and work with you in 2009 and beyond!

Finally, I would like to give thanks to all of CIIH's employees in 2008. Despite the exceedingly difficult conditions that we all faced during the Year, the staff and professionals of the Company have been unwavering in their tremendous dedication and hard work. We believe strongly that our continued adherence to our principles and unyielding focus and willingness to sacrifice to reach our objectives will allow CIIH to emerge from the current difficult conditions stronger than ever. Our professionals and employees are the best in China and the world, and are our greatest asset. They are the bedrock of CIIH and are the platform from which we will continue to advance forward in the future! Although 2009 will be an uncertain and challenging year, there is no doubt in any of our minds that our people will be able to find solutions for any and all obstacles or challenges that we might face.

Thank you again! We all look forward to working with you, our shareholders, as partners now and into the future!

Lin Fan
Chairman

Hong Kong, 18 March 2009

MANAGEMENT REVIEW AND ANALYSIS

CONSOLIDATED FINANCIAL RESULTS

The performance highlights of the Group for the Year were as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Gross premiums written and policy fees	25,003.80	17,934.00	39.4%
Net investment income	3,394.34	1,888.40	79.8%
Net realized investment (losses)/gains	(1,048.78)	4,277.79	-
Net unrealized investment (losses)/gains	(1,755.63)	505.58	-
Impairment on AFS equities	(309.44)	-	-
Goodwill impairment	(73.28)	-	-
Net exchange loss	(119.20)	(31.12)	3.8 times
(Loss)/profit before taxation	(269.00)	3,010.91	-
(Loss)/profit after taxation	(205.76)	2,457.20	-
Net (loss)/ profit attributable to the equity holders	(299.72)	1,549.07	-
Basic (loss)/earnings per share (HK cent)	(21.2)	110.2	-
No final dividend proposed (2007: HK10 cents per share)	-	141.53	-

The net (loss)/profit attributable to the equity holders by each business line is summarized below:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Reinsurance	51.85	579.69	(91.1%)
Life insurance	440.68	1,018.06	(56.7%)
Property and casualty insurance	(280.50)	(58.31)	4.8 times
Corporate and other businesses	(511.75)	9.63	-
- Holding company and other businesses	(237.54)	42.83	-
- Pension company operated by TPP	(164.53)	(59.63)	2.8 times
- Assets management companies operated by TPAM and CIGAML	(36.40)	26.43	-
- Goodwill impairment	(73.28)	-	-
Net (loss)/profit attributable to the equity holders	(299.72)	1,549.07	-

CONSOLIDATED FINANCIAL RESULTS (Continued)

The following analysis shows the movement of the net assets value attributable to the equity holders of the Company ("NAV") from 1 January 2008 to 31 December 2008.

HK\$ million

NAV as at 1 January 2008	5,685.63
Loss recognized in income statement	(299.72)
Net changes in AFS investment reserve	(866.54)
Exchange gain arising from translation of the financial statements of subsidiaries outside Hong Kong	147.70
Dividend paid	(141.45)
Others ¹	71.00
NAV as at 31 December 2008	<u>4,596.62</u>

¹ Others mainly include the net proceeds received for Shares issued under the Share Option Scheme and the amortization of the costs of the Shares acquired under the Share Award Scheme.

The **gross premiums written and policy fees** for the Year increased significantly by 39.4% to HK\$25,003.80 million from HK\$17,934.00 million in the Last Year. The increase was mainly due to the strong premium growth at each of our business segments, in particular the life insurance business in which premiums increased by 30.6% to HK\$21,207.79 million from HK\$16,245.25 million in the Last Year.

The **net loss attributable to the equity holders** for the Year was HK\$299.72 million (2007: profit of HK\$1,549.07 million). The Group's net loss was primarily due to investment losses from equity securities traded in Hong Kong and the PRC, and operating losses at our property and casualty insurance operations at TPI, pension operations at TPP and impairment on goodwill associated with acquisition of CIGAML. Because of our relative lack of scale and early stage of development, changes in investment performance in particular will have a relatively larger impact on our consolidated figures.

The **reinsurance business** contributed net profit to the equity holders of HK\$51.85 million (2007: HK\$579.69 million). The decline in profits was mainly due to significant declines in investment returns during the Year, primarily because of equity investment losses from shares traded in Hong Kong, which offset higher underwriting profits.

The **life insurance business** contributed net profit to the equity holders of HK\$440.68 million (2007: HK\$1,018.06 million). The decrease in profits was mainly due to significant declines in investment returns during the Year, primarily because of equity investment losses from shares traded in the PRC, which offset strong increases in premium and improvements in the scale of operations.

The **property and casualty insurance business** incurred a net loss to the equity holders of HK\$280.50 million (2007: HK\$58.31 million). The increase in losses was mainly due to significant increase in premiums, which resulted in higher acquisition costs booked in the Year, the current lack of scale of operations, higher claims expenses from natural disasters, and a significant decline in investment returns, during the Year. The continuing severe and irrational competition in the PRC property and casualty insurance market has made profitable underwriting extremely difficult.

CONSOLIDATED FINANCIAL RESULTS *(Continued)*

The **holding company and other businesses** incurred a net loss to the equity holders of HK\$237.54 million (2007: profit of HK\$42.83 million). The losses were primarily due to investment losses of HK\$129.03 million (2007: gains of HK\$161.53 million), which were primarily related to equity losses on shares traded in Hong Kong and interest expenses of HK\$80.17 million (2007: HK\$80.02 million) related to the outstanding senior debt.

The **pension business** incurred a net loss to the equity holders of HK\$164.53 million (2007: HK\$59.63 million). The losses were mainly due to the current lack of economies of scale at the pension operations and investment losses (primarily related to equity shares traded in the A-share markets) incurred during the Year. The Group's pension business is operated by TPP, which is a PRC-incorporated company and a non-direct controlled subsidiary effectively owned 50.03% by the Group. TPP is principally engaged in planning and administering enterprise annuity products, providing trustee and investment services for enterprise annuity schemes in Mainland China. Such supplemental pension systems are voluntarily built by enterprises and their employees and represent a vast potential market. TPP also provides marketing services to TPL on group life insurance products.

At the end of the Year, the annuity and investment funds managed by TPP amounted to RMB15.6 billion, which constituted the funds and schemes of 6,833 enterprises. As the qualified enterprise annuity industry is still in its nascent stage of development in China, and because TPP is one of the very first approved pension operators in the country, TPP is still in its initial set-up period and is building up its marketing network and exploring potential business models for the future.

The **asset management business** incurred a net loss to the equity holders of HK\$36.40 million (2007: profit of HK\$26.43 million). The Group's asset management business is operated by TPAM and CIGAML, which are mainly engaged in the provision of investment consultancy services to the Group in managing its RMB and non-RMB investment portfolios, respectively. TPAM and CIGAML currently represent cost centres of the Group, as the asset management fee income received from the Group companies are eliminated at the consolidated level, while the corresponding expenses, such as salary, incentive compensation paid to fund managers and other operating expenses, are absorbed in full at the consolidated level.

During the Year, the impairment of HK\$73.28 million (2007: nil) was recognized on the goodwill associated with the acquisition of CIGAML in 2002. In 2005, an impairment amount of HK\$250.00 million was made on this goodwill. After the further impairment amount of HK\$73.28 million in 2008, there is no remaining goodwill asset associated with the acquisition of CIGAML recognized in the consolidated financial statements of the Company.

CONSOLIDATED INVESTMENT PERFORMANCE

Consolidated investment assets

The total investments of the Group are summarized as follows:

At 31 December, HK\$ million

	2008	% of Total	2007	% of Total
Debt securities	50,028.09	69.0%	27,746.83	54.3%
Direct equity securities	1,621.71	2.2%	7,000.45	13.7%
Equity investment funds	5,123.70	7.1%	5,614.96	11.0%
Composite investment funds	90.36	0.1%	139.95	0.3%
Cash and bank deposits	15,620.70	21.5%	10,520.27	20.6%
Investment properties	76.72	0.1%	78.56	0.1%
Total investments	72,561.28	100.0%	51,101.02	100.0%

The investments in securities are classified as Held-to-Maturity (“HTM”), Available-for-Sale (“AFS”), Designated at Fair Value through Profit or Loss (“DTPL”) and Loans and Receivables (“LR”). The detailed breakdown by such classifications for the total investment portfolio of the Group was as follows:

At 31 December 2008, HK\$ million

	HTM	AFS	DTPL	LR	Total
Debt securities	21,004.15	26,003.95	854.18	2,165.81	50,028.09
Direct equity securities	-	1,510.72	110.99	-	1,621.71
Equity investment funds	-	2,711.89	2,411.81	-	5,123.70
Composite investment funds	-	38.18	52.18	-	90.36
	21,004.15	30,264.74	3,429.16	2,165.81	56,863.86

At 31 December 2007, HK\$ million

	HTM	AFS	DTPL	LR	Total
Debt securities	1,019.07	25,947.54	523.91	256.31	27,746.83
Direct equity securities	-	5,243.17	1,757.28	-	7,000.45
Equity investment funds	-	2,220.71	3,394.25	-	5,614.96
Composite investment funds	-	51.38	88.57	-	139.95
	1,019.07	33,462.80	5,764.01	256.31	40,502.19

CONSOLIDATED INVESTMENT PERFORMANCE *(Continued)*

The percentages of the Group's total investments held by each business segment in terms of carrying values at the balance sheet date were as follows:

	2008	2007
Reinsurance	5.6%	8.5%
Life insurance	86.3%	87.1%
Property and casualty insurance	5.6%	-
Corporate and other businesses	2.5%	4.4%
	100.0%	100.0%

Consolidated investment income

The total investment income of the Group on a pre-tax basis recognized in the consolidated income statement was as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net investment income	3,394.34	1,888.40	79.8%
Net realized investment (losses)/gains	(1,048.78)	4,277.79	-
Net unrealized investment (losses)/gains	(1,755.63)	505.58	-
Impairment on AFS equities	(309.44)	-	-
Total investment income	280.49	6,671.77	(95.8%)
Less: Investment (losses)/gains attributable to unit-linked products ¹	(2,146.67)	553.12	-
Total investment income excluding income of unit-linked products	2,427.16	6,118.65	(60.3%)

¹ Unit-linked products are the funds managed by the Group for its clients and policyholders. The investment returns attributable to such products are completely borne by the clients and policyholders, and do not directly impact the financial results of the Group.

The total investment income (excluding the income of unit-linked products) of the Group recognized in the consolidated income statement decreased by 60.3% to HK\$2,427.16 million in the Year from HK\$6,118.65 million in the Last Year. The decrease was primarily attributable to equity investment losses from shares traded in Hong Kong and the PRC. Following extraordinarily strong and positive performances in 2006 and 2007, equity markets in Hong Kong and the PRC experienced sharp declines during the Year.

According to the Group's impairment policy, available-for-sale investments in debt and equity securities are reviewed periodically to determine whether there is objective evidence of impairment. Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer, but may also include information on material changes that have taken place in the technological, market, economic or legal environments, which taken together or taken alone may provide evidence that the cost of the equity securities may not be recovered. Under such criterion, significant or prolonged declines in the fair value of an asset below its cost is also objective evidence of impairment. In 2008, the impairment loss on available-for-sale equity securities recognized in the income statement was HK\$309.44 million.

CONSOLIDATED INVESTMENT PERFORMANCE *(Continued)*

The details of the Group's investment (loss)/income on a pre-tax basis are summarized as follows:

For the year ended 31 December 2008, HK\$ million

	Recognized in the consolidated income statement						Unrealized gains/ (losses) recognized in the fair value reserve	Grand total
	Interest income/ (expense)	Dividend income	Rental income	Realized (losses)/ gains	Unrealized losses	Impairment		
Debt securities								
HTM	502.23	-	-	-	-	-	502.23	502.23
AFS	1,190.97	-	-	(16.85)	-	-	1,174.12	2,507.66
DTPL	19.94	-	-	284.74	(33.43)	-	271.25	271.25
LR	44.13	-	-	-	-	-	44.13	44.13
Direct equity securities								
AFS	-	44.61	-	679.31	-	(230.36)	493.56	(1,111.17)
DTPL	-	8.88	-	(715.39)	(350.52)	-	(1,057.03)	(1,057.03)
Equity investment funds								
AFS	-	343.84	-	(435.85)	-	(79.08)	(171.09)	(1,353.80)
DTPL	-	818.68	-	(836.20)	(1,277.90)	-	(1,295.42)	(1,295.42)
Composite investment funds								
AFS	-	0.19	-	-	-	-	0.19	(12.75)
DTPL	-	38.16	-	(8.54)	(91.94)	-	(62.32)	(62.32)
Cash and bank deposits	434.77	-	-	-	-	-	434.77	434.77
Investment properties	-	-	2.81	-	(1.84)	-	0.97	0.97
Securities sold under repurchase agreements	(79.59)	-	-	-	-	-	(79.59)	(79.59)
Others	24.72	-	-	-	-	-	24.72	24.72
	2,137.17	1,254.36	2.81	(1,048.78)	(1,755.63)	(309.44)	280.49	(1,186.35)

CONSOLIDATED INVESTMENT PERFORMANCE *(Continued)*

For the year ended 31 December 2007, HK\$ million

	Recognized in the consolidated income statement						Unrealized (losses)/ gains recognized in the fair value reserve	Grand total
	Interest income/ (expense)	Dividend income	Rental income	Realized (losses)/ gains	Unrealized gains	Impairment		
Debt securities								
HTM	65.17	-	-	-	-	-	65.17	65.17
AFS	978.16	-	-	(0.54)	-	-	977.62	(1,395.73)
DTPL	21.75	-	-	100.36	41.26	-	163.37	163.37
LR	5.65	-	-	-	-	-	5.65	5.65
Direct equity securities								
AFS	-	25.55	-	2,375.46	-	-	2,401.01	3,722.76
DTPL	-	6.48	-	492.99	56.35	-	555.82	555.82
Equity investment funds								
AFS	-	256.30	-	710.94	-	-	967.24	1,418.41
DTPL	-	382.32	-	592.78	379.10	-	1,354.20	1,354.20
Composite investment funds								
AFS	-	-	-	-	-	-	-	4.27
DTPL	-	22.67	-	4.73	23.34	-	50.74	50.74
Cash and bank deposits	388.07	-	-	-	-	-	388.07	388.07
Investment properties	-	-	2.43	(0.18)	5.53	-	7.78	7.78
Securities sold under repurchase agreements	(285.33)	-	-	-	-	-	(285.33)	(285.33)
Others	19.18	-	-	1.25	-	-	20.43	20.43
	<u>1,192.65</u>	<u>693.32</u>	<u>2.43</u>	<u>4,277.79</u>	<u>505.58</u>	<u>-</u>	<u>6,671.77</u>	<u>6,075.61</u>

REINSURANCE BUSINESS

The Group's reinsurance business is operated by CIRE, which is a Hong Kong-incorporated company and wholly-owned by the Group. CIRE is mainly engaged in the underwriting of all classes of reinsurance business around the globe, except long-tail, liability reinsurance business from outside of Asia, such as the United States and Europe. CIRE's key markets are Hong Kong and Macau, Mainland China, Japan, the rest of Asia, Europe and other parts of the world.

The key financial data and key performance indicators of the reinsurance business are summarized below:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Gross premiums written	1,839.00	1,681.21	9.4%
Net premiums written	1,568.66	1,470.06	6.7%
Net earned premiums	1,534.90	1,441.95	6.5%
Net claims incurred	(887.76)	(944.99) *	(6.1%)
Net commission expenses	(396.01)	(351.66)	12.6%
Underwriting profit	222.43	108.64 *	2.1 times
Total investment (loss)/income	(97.90)	530.13	-
Net exchange (loss)/gain	(38.09)	10.96 *	-
Profit before taxation	59.59	616.93	(90.3%)
Profit attributable to the equity holders	51.85	579.69	(91.1%)
Regulatory solvency margin ratio	630.6%	747.5%	(116.9 pts)
Technical reserves ratio	179.1%	179.8%	(0.7 pt)
Retained ratio	85.3%	87.4%	(2.1 pts)
Earned premiums ratio	83.5%	85.8%	(2.3 pts)
Loss ratio ¹	57.8%	65.5% *	(7.7 pts)
Expense ratio ²	27.1%	26.4%	0.7 pt
Combined ratio ³	84.9	91.9 *	(7.0 pts)

¹ The loss ratio is based on net earned premiums.

² The expense ratio is based on net premiums written. The management believes that calculating the expense ratio based on net premiums written is a fairer indicator and better reflects the underwriting performance of CIRE. If the net earned premiums basis is applied, then the expense ratio would be 27.7% for the Year (2007: 26.9%).

³ The combined ratio is the sum of the loss ratio and the expense ratio. If the expense ratio is based on net earned premiums, then the combined ratio would be 85.5 for the Year (2007: 92.4).

* Prior to 2008, the exchange difference arising from the claim reserve was recognized in the underwriting results. In order to better reflect the underwriting performance of CIRE, from 2008 onwards, such exchange difference will be reclassified into a separate account in the income statement, namely as the net exchange loss. The exchange difference for 2008 and 2007 are an exchange gain of HK\$57.15 million and an exchange loss of HK\$50.23 million, respectively. For consistency and comparability purposes, the corresponding figures and ratios of 2007 are restated accordingly, however, they are not restated in the consolidated financial statements because the amounts involved are not material from the perspective of the consolidated level.

The original amount of net claims incurred, underwriting profit and net exchange gain for 2007 are HK\$995.22 million, HK\$58.41 million and HK\$61.19 million, respectively. The original loss ratio and combined ratio for 2007 are 69.0% and 95.4, respectively.

REINSURANCE BUSINESS *(Continued)*

Profit Attributable to the Equity Holders

The reinsurance business contributed net profit to the equity holders of HK\$51.85 million during the Year (2007: HK\$579.69 million), representing a decline of 91.1% compared to Last Year. Although much lower than Last Year, this level of profitability is considered to be satisfactory, as the reinsurance market and investment conditions in 2008 were one of the most difficult in history. The underwriting profit, together with the release of redundant previous years' loss provisions, were able to offset CIRE's losses in investments (primarily related to equity securities traded in Hong Kong) and foreign exchange (related to its foreign currency holdings).

In 2006 and 2007, CIRE's operations and earnings benefited substantially from extraordinary investment gains related to the strong global equity markets, particularly equities traded in Hong Kong. In 2008, global equity markets and those in Hong Kong experienced significant investment losses, as deteriorating economic fundamentals worldwide combined with crises of confidence in the global financial system to produce sudden and severe equity market declines. The resulting credit crunch has severely dampened economic activity around the world, and resulted in previously-not-seen-before market volatility. Whereas CIRE produced back-to-back record earnings in 2006 and 2007 on the strength of investment gains in the equity markets, in 2008 the sudden and drastic reversals in the equity markets have likewise significantly dampened results for the reinsurance operations.

2008 also saw a significant increase in catastrophes in China and worldwide relative to 2006 and 2007, during which time there were almost no major catastrophes. As such, CIRE experienced higher catastrophe-related claims in 2008, albeit the financial impact of these higher claims levels has been ameliorated by CIRE's retrocession protections. Part of these retrocession arrangements were put into place by CIRE in the Last Year, during which time there were no major catastrophes. The underwriting result was further improved by the release of redundant loss provisions conservatively set against the claims liabilities of earlier years. Thus, despite a higher incidence of catastrophe claims, CIRE was able to produce a strong underwriting profit of HK\$222.43 million for the Year compared to HK\$108.64 million in the Last Year.

REINSURANCE BUSINESS (Continued)

Gross Premiums Written

CIRE's gross premiums written increased by 9.4% to HK\$1,839.00 million from HK\$1,681.21 million in the Last Year. During the Year, CIRE made further inroads into the Mainland China market, which has now become the single largest geographic market of CIRE and which drove the overall premium growth of the reinsurance operations. CIRE's Beijing branch was successfully launched and became operational before the end of 2008, just in time to allow the branch and its professionals to participate in the 2009 business renewals with clients in Mainland China. In CIRE's traditional core markets of Hong Kong and Macau, intense competition from the over one hundred registered primary insurers has caused general concerns over original premium pricing. In such a competitive environment, CIRE decided to take a more cautious approach with renewals, while simultaneously seeking to maintain and strengthen our existing client relationships. CIRE has been involved in Hong Kong and Macau for a very long time, and as such its professionals in Hong Kong have tremendous and unique experience, know-how and in-depth knowledge of these two markets, which represents a key competitive advantage. In 2008, CIRE made an effort to utilize these combined skills and experience to better serve and respond to the various needs and demands of its clients. As a result, CIRE was able to maintain its position with most of its key clients and contracts in Hong Kong and Macau, even though the overall premium levels are slightly lower.

In other Asian markets, CIRE was able to keep its market position and grow its premiums in-line with the respective market. Outside of Asia, to maintain CIRE's position and reputation as one of the few Asian-based reinsurers to be long-term committed and involved with reinsurance clients and intermediaries from around the world, the premium income from outside of Asia has increased in line with the growth of the core Asian portfolio, and continues to represent approximately 20.0% of gross premiums written.

CIRE's geographical distribution of gross premiums written is summarized as follows:

For the year ended 31 December, HK\$ million

	2008	% of Total	2007	% of Total
Hong Kong & Macau	304.00	16.5%	316.65	18.8%
Mainland China (& Taiwan)	530.03	28.8%	399.65	23.8%
Japan	143.42	7.8%	113.97	6.8%
Rest of Asia	453.70	24.7%	455.99	27.1%
Europe	226.92	12.3%	249.97	14.9%
Others	180.93	9.9%	144.98	8.6%
	1,839.00	100.0%	1,681.21	100.0%

REINSURANCE BUSINESS (Continued)

Net Claims Incurred

Despite an increase in frequency of catastrophes during the Year, CIRE's net claims incurred decreased by 6.1% to HK\$887.76 million from HK\$944.99 million in the Last Year. The loss ratio decreased to 57.8% from 65.5% in 2007. During the Year, the southern provinces of Mainland China experienced a rare snowstorm in the months of January and February, which became the single largest loss for CIRE for the year. The net retained loss from the snowstorm, however, was only half of the gross incurred loss due to CIRE's retrocession protections. The devastating earthquake which struck Sichuan Province in Mainland China on 12 May did not result in serious losses to CIRE, mainly because of the region's low insurance penetration. However, the rainstorm in Guangdong Province and Hong Kong during the middle of June 2008 and Hurricane Ike, which hit areas in the Caribbean Sea and Texas of the United States in September 2008, did result in some losses for the reinsurance operations. Overall, because of proper and effective risk management and retrocession protections in place, CIRE was not overly affected by the catastrophes which occurred during 2008.

CIRE's top three major claims in terms of gross losses during the Year were as follows:

For the year ended 31 December 2008, HK\$ million

	Date of loss	Gross loss incurred	Net retained loss incurred	% retention
Snowstorm in Southern China	Jan 2008	187.62	94.72	50.5%
Rainstorm in Guangdong & Hong Kong	Jun 2008	65.61	48.31	73.6%
Hurricane Ike in United States	Sep 2008	36.05	35.46	98.4%

The loss provisions originally set aside for the claims liabilities of earlier years were reviewed during the Year. Due to positive developments of the run-off liabilities for the earlier underwriting years, redundant loss provisions amounting to approximately HK\$160.90 million were released (approximately 10.5% of net earned premium of the Year), which helped to bolster the underwriting results and profitability in 2008. The combined ratio during the Year was 84.9 (2007: 91.9).

Investment Performance

The composition of investments held by CIRE was as follows:

At 31 December, HK\$ million

	2008	% of Total	2007	% of Total
Debt securities	1,904.91	46.8%	1,734.13	39.9%
Direct equity securities	231.80	5.7%	638.93	14.7%
Composite investment funds	67.04	1.7%	90.84	2.1%
Cash and bank deposits	1,786.45	43.9%	1,807.81	41.5%
Investment properties	76.72	1.9%	78.56	1.8%
Total invested assets	4,066.92	100.0%	4,350.27	100.0%

REINSURANCE BUSINESS (Continued)

During the Year, because of the extraordinarily challenging investment market conditions globally, CIRE was very cautious in its asset allocation for its investment portfolio. Equity investments were significantly reduced, while debt securities and cash and bank deposits were increased to a combined total of approximately 90.7% of the total invested assets as at 31 December 2008 (2007: 81.4%). Almost all of the debt securities had investment grade ratings from international credit rating agencies.

The classification of CIRE's investments in securities under HTM, AFS and DTPL was as follows:

At 31 December 2008, HK\$ million

	HTM	AFS	DTPL	Total
Debt securities	1,338.63	390.08	176.20	1,904.91
Direct equity securities	-	194.66	37.14	231.80
Composite investment funds	-	38.18	28.86	67.04
	1,338.63	622.92	242.20	2,203.75

At 31 December 2007, HK\$ million

	HTM	AFS	DTPL	Total
Debt securities	1,013.62	572.33	148.18	1,734.13
Direct equity securities	-	569.55	69.38	638.93
Composite investment funds	-	51.38	39.46	90.84
	<u>1,013.62</u>	<u>1,193.26</u>	<u>257.02</u>	<u>2,463.90</u>

The debt securities classified by type and class were as follows:

At 31 December, HK\$ million

	2008	2007
Central governments and central banks	131.34	181.61
Public sector entities	50.97	100.72
Banks and other financial institutions	1,425.13	980.45
Corporate entities	286.47	441.37
Others	11.00	29.98
	1,904.91	1,734.13

REINSURANCE BUSINESS *(Continued)*

The debt securities classified by original currencies in their respective HKD equivalents were as follows:

At 31 December, HK\$ million

	2008	2007
USD	1,677.80	1,667.75
EUR	85.08	11.36
HKD	68.98	19.97
GBP	40.43	-
Others	32.62	35.05
	1,904.91	1,734.13

The total investment income and the investment yield of CIRE's investments on a pre-tax basis recognized in the consolidated income statement were as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net investment income	178.67	184.62	(3.2%)
Net realized investment (losses)/gains	(96.96)	357.38	-
Net unrealized investment losses	(73.79)	(11.87)	6.2 times
Impairment on AFS equities	(105.82)	-	-
Total investment (loss)/income	(97.90)	530.13	-
Total investment yield	(2.2%)	13.0%	-

CIRE's total investment income was a loss of HK\$97.90 million for the Year, a significant decline from the profit of HK\$530.13 million in the Last Year. Sharp declines in prices for equities traded in Hong Kong were the primary factors behind CIRE's large investment losses, both realized and unrealized, as well as the impairment on AFS equities. Although the recurrent income from bank deposits and fixed income securities was stable, it could not offset the significant losses in equities, which resulted in the overall negative total investment yield for 2008. The above-described investment income and investment yield figures do not include a net exchange loss of HK\$38.09 million (2007: gain of HK\$10.96 million).

REINSURANCE BUSINESS (Continued)

The details of CIRE's investment (loss)/income on a pre-tax basis were as follows:

For the year ended 31 December 2008, HK\$ million

	Recognized in the consolidated income statement						Sub total	Unrealized losses recognized in the fair value reserve	Grand total
	Interest income	Dividend income	Rental income	Realized losses	Unrealized losses	Impairment			
Debt securities									
HTM	76.21	-	-	-	-	-	76.21	-	76.21
AFS	35.89	-	-	-	-	-	35.89	(65.04)	(29.15)
DTPL	9.26	-	-	(1.28)	(36.23)	-	(28.25)	-	(28.25)
Direct equity securities									
AFS	-	12.64	-	(95.31)	-	(105.82)	(188.49)	(93.43)	(281.92)
DTPL	-	1.60	-	(0.37)	(25.35)	-	(24.12)	-	(24.12)
Composite investment funds									
AFS	-	0.19	-	-	-	-	0.19	(12.95)	(12.76)
DTPL	-	2.94	-	-	(10.37)	-	(7.43)	-	(7.43)
Cash and bank deposits	36.17	-	-	-	-	-	36.17	-	36.17
Investment properties	-	-	2.81	-	(1.84)	-	0.97	-	0.97
Others	0.96	-	-	-	-	-	0.96	-	0.96
	158.49	17.37	2.81	(96.96)	(73.79)	(105.82)	(97.90)	(171.42)	(269.32)

For the year ended 31 December 2007, HK\$ million

	Recognized in the consolidated income statement						Sub total	Unrealized gains/(losses) recognized in the fair value reserve	Grand total
	Interest income	Dividend income	Rental income	Realized (losses)/gains	Unrealized (losses)/gains	Impairment			
Debt securities									
HTM	64.85	-	-	-	-	-	64.85	-	64.85
AFS	24.47	-	-	-	-	-	24.47	9.49	33.96
DTPL	11.38	-	-	(0.34)	(15.06)	-	(4.02)	-	(4.02)
Direct equity securities									
AFS	-	8.20	-	356.75	-	-	364.95	(99.92)	265.03
DTPL	-	1.91	-	(0.10)	(1.73)	-	0.08	-	0.08
Composite investment funds									
AFS	-	-	-	-	-	-	-	4.27	4.27
DTPL	-	3.18	-	-	(0.61)	-	2.57	-	2.57
Cash and bank deposits	67.82	-	-	-	-	-	67.82	-	67.82
Investment properties	-	-	2.43	(0.18)	5.53	-	7.78	-	7.78
Others	0.38	-	-	1.25	-	-	1.63	-	1.63
	168.90	13.29	2.43	357.38	(11.87)	-	530.13	(86.16)	443.97

REINSURANCE BUSINESS *(Continued)*

Reserving

CIRE continues to focus on writing property damage, marine and short tail liability reinsurance, involving portfolio of risks or for individual policies or risks. CIRE does not get involved in long tail, liability reinsurance in markets outside of Asia as a matter of policy. Based on the review of prior years' loss reserve provisions against the positive development of the run-off liabilities, redundant loss reserve provisions were released during the Year. CIRE continues to adopt prudent reserving standards, resulting in technical reserve provisions at the higher end of the prudent and conservative range. CIRE is therefore able to meet and satisfy the high expectations of its business counterparties and rating agencies in maintaining adequate reserve provisions to ensure that it can safely meet its insurance liabilities.

LIFE INSURANCE BUSINESS

The Group's life insurance segment is operated by TPL, which is a PRC-incorporated company and is 50.05%-owned by the Group. TPL is principally engaged in the underwriting of life insurance policies in Mainland China.

The key financial data of the life insurance business is summarized below:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Gross premiums written	21,207.79	16,245.25	30.6%
Net premiums written and policy fees	21,104.67	16,186.53	30.4%
Net earned premiums and policy fees	21,061.26	16,206.73	30.0%
Total investment income	530.38	5,802.71	(90.9%)
Net exchange loss	(81.66)	(86.61)	(5.7%)
Net policyholders' benefits	(4,288.57)	(4,066.93)	5.5%
Net commission expenses	(2,026.97)	(1,645.50)	23.2%
Change in life insurance funds, net of reinsurance	(11,742.51)	(11,849.47)	(0.9%)
Administrative and other expenses	(2,671.61)	(1,901.47)	40.5%
Finance costs	(98.18)	(68.45)	43.4%
Profit before taxation	794.05	2,522.88	(68.5%)
Profit after taxation	880.43	2,034.08	(56.7%)
Profit attributable to the equity holders	440.68	1,018.06	(56.7%)

The key operational data of the life insurance business is summarized below:

	2008	2007	Change
Market share ¹	2.6%	3.2%	(0.6 pt)
Number of provincial branches	33	29	4
Number of sub-branches and marketing centres	506	317	189
Number of in-force policies	6,944,279	5,016,857	1,927,422
Number of individual agents	46,781	41,140	5,641
Persistency ratio – 13th month ²	82.6%	83.0%	(0.4 pt)
Persistency ratio – 25th month ²	91.1%	92.1%	(1.0 pts)

¹ Based on gross premiums written in accordance with PRC GAAP and published by the CIRC.

² Based on the amount of premiums.

LIFE INSURANCE BUSINESS (Continued)

Profit Attributable to the Equity Holders

The life insurance business contributed net profit to the equity holders of HK\$440.68 million during the Year (2007: HK\$1,018.06 million), representing a decline of 56.7% compared to Last Year. Although much lower than Last Year, this level of profitability is considered to be satisfactory, as the global financial and economic turmoil in 2008 also significantly impacted the financial markets of the PRC, in particular the A-share equity markets which fell substantially. Despite this turbulence and volatility, TPL still managed to achieve profitability, as higher gross premiums written, effective cost controls and greater scale economies overcame large investment losses (primarily related to equity securities traded in the PRC).

In 2006 and 2007, TPL's operations and earnings benefited substantially from extraordinary investment gains related to the strong domestic A-share equity markets in the PRC, which produced one of the highest levels of returns of stock indices in the world. In 2008, A-share equity markets produced one of the highest levels of losses of stock indices in the world, as the financial markets of the PRC could not avoid the impact of deteriorating economic fundamentals worldwide and the crises of confidence brought forth by the credit crunch. Whereas TPL produced back-to-back record earnings in 2006 and 2007 on the strength of investment gains in the equity markets, in 2008 the sudden and drastic reversals in the equity markets have likewise significantly lowered results for the life insurance operations.

Gross Premiums Written

TPL's gross premiums written increased by 30.6% to HK\$21,207.79 million from HK\$16,245.25 million in the Last Year. Due to uncertainties in the investment outlook, TPL curtailed the sales of unit-linked products and has been successful in shifting its marketing focus and strategy to more traditional life insurance products with regular premium features. With penetration rates still at relatively low levels, the PRC life insurance industry continues to have vast potential for rapid expansion. With a large presence in every single major province and city in the country (except for Tibet, Qinghai, Ningxia and Hainan Island), TPL's nationwide presence and infrastructure have allowed the life insurance operations to continue to produce strong premium growth and to gain scale in the marketplace. TPL's gross premiums written, by line of business, were as follows:

For the year ended 31 December 2008, HK\$ million

	Non unit-linked products	Unit-linked products	Total	% of Total
Individual	4,403.09	270.61	4,673.70	22.0%
Bancassurance	13,604.75	1,782.35	15,387.10	72.6%
Group	1,146.89	0.10	1,146.99	5.4%
	<u>19,154.73</u>	<u>2,053.06</u>	<u>21,207.79</u>	<u>100.0%</u>

For the year ended 31 December 2007, HK\$ million

	Non unit-linked products	Unit-linked products	Total	% of Total
Individual	2,501.32	2,757.25	5,258.57	32.4%
Bancassurance	8,208.53	1,506.80	9,715.33	59.8%
Group	1,261.04	10.31	1,271.35	7.8%
	<u>11,970.89</u>	<u>4,274.36</u>	<u>16,245.25</u>	<u>100.0%</u>

LIFE INSURANCE BUSINESS (Continued)

During the Year, the sale of unit linked products fell significantly to HK\$2,053.06 million from HK\$4,274.36 million in the Last Year, representing a decrease of 52.0%. This decline in premium, however, was more than made up for by the strong increase in demand for non unit-linked products, which sharply increased to HK\$19,154.73 million from HK\$11,970.89 million in the Last Year, representing an increase of 60.0%.

The strength of the non unit-linked product sales was apparent in both the individual agency distribution channel and the bank distribution channel. Non unit-linked premiums distributed through the individual agency force increased to HK\$4,403.09 million from HK\$2,501.32 million in the Last Year, representing an increase of 76.0%. This strong growth was due to improvements in productivity among the existing agency force, as well as the increase in number of individual agents to 46,781 as of 31 December 2008 (2007: 41,140). In the bank distribution channel, non unit-linked premiums increased to HK\$13,604.75 million from HK\$8,208.53 million in the Last Year, representing an increase of 65.7%. TPL's bank channel of distribution benefited from the resurgence of interest in bancassurance products among policyholders amidst the poor equity markets sentiment, as well as TPL's continued leadership and cutting-edge expertise in this line of the business.

During the Year, TPL continued to increase, within its non unit-linked product sales, the proportion of its products with regular premium. The detailed breakdown of TPL's single premium products and regular premium products by line of business is summarized as follows:

For the year ended 31 December, HK\$ million

Individual

	2008	% of Total	2007	% of Total
Single Premium	42.51	1.0%	36.35	1.5%
Regular Premium – First Year	2,115.40	48.0%	1,062.51	42.5%
Regular Premium – Renewal Year	2,245.18	51.0%	1,402.46	56.0%
	4,403.09	100.0%	2,501.32	100.0%

Bancassurance

	2008	% of Total	2007	% of Total
Single Premium	10,492.55	77.1%	6,763.54	82.4%
Regular Premium – First Year	1,685.17	12.4%	586.95	7.2%
Regular Premium – Renewal Year	1,427.03	10.5%	858.04	10.4%
	13,604.75	100.0%	8,208.53	100.0%

Group

	2008	% of Total	2007	% of Total
Employee Benefit ("EB")	692.59	60.4%	633.47	50.2%
Annuity	454.30	39.6%	627.57	49.8%
	1,146.89	100.0%	1,261.04	100.0%

LIFE INSURANCE BUSINESS (Continued)

TPL's strategy over the past few years has been to gradually increase, within its sales of non unit-linked products, the proportion of those products with regular premium. This key parameter is one of the most important priorities of the senior management and professionals of the life insurance operations. During the Year, regular premium products accounted for 99.0% (2007: 98.5%) and 22.9% (2007: 17.6%) of the total non unit-linked product sales produced by TPL's individual agents and bancassurance channels, respectively. Such higher proportion of regular premium product sales is very encouraging, and will continue to be the focus of TPL in the years to come. Regular premium products have higher profit margins from an actuarial perspective and as such constitute much higher quality business for the life insurance operations.

The higher proportion of regular premium products and their higher profitability is reflected in the significantly higher embedded value and new business value figures of TPL for 2008, despite the adoption of more conservative assumptions (in particular, for the investment yield to take into account the ongoing financial crisis). It is encouraging to note that the embedded value of TPL (expressed in terms of HKD) has increased 24.3% to HK\$8,548 million from HK\$6,879 million at the end of Last Year despite a lower adjusted net worth. Likewise, the new business value after cost of capital and expense overrun for the Year increased to HK\$865 million from HK\$603 million at the end of Last Year, representing a remarkable growth of 43.5%. These latest actuarial figures of TPL are disclosed below in the section titled "Embedded Value of TPL".

Investment Performance

The composition of investments held by TPL was as follows:

At 31 December 2008, HK\$ million

	Investment assets (excluding Unit-linked product assets)		Unit-linked product assets		
	HK\$ million	% of Total	HK\$ million	% of Total	Total
Debt securities	44,945.96	77.0%	592.38	13.9%	45,538.34
Direct equity securities	1,034.86	1.8%	67.18	1.6%	1,102.04
Equity investment funds	2,418.22	4.1%	2,354.26	55.3%	4,772.48
Cash and bank deposits	9,946.20	17.1%	1,244.09	29.2%	11,190.29
Total invested assets	58,345.24	100.0%	4,257.91	100.0%	62,603.15

At 31 December 2007, HK\$ million

	Investment assets (excluding Unit-linked product assets)		Unit-linked product assets		
	HK\$ million	% of Total	HK\$ million	% of Total	Total
Debt securities	25,461.94	63.7%	228.59	5.0%	25,690.53
Direct equity securities	4,280.21	10.7%	1,553.37	34.3%	5,833.58
Equity investment funds	2,926.16	7.3%	2,567.05	56.7%	5,493.21
Cash and bank deposits	7,294.99	18.3%	181.16	4.0%	7,476.15
Total invested assets	39,963.30	100.0%	4,530.17	100.0%	44,493.47

During the Year, because of the extraordinarily challenging investment market conditions in the PRC, TPL was very cautious in its asset allocation for its investment portfolio. Equity investments were significantly reduced, while debt securities and cash and bank deposits were increased to a combined total of approximately 94.1% of TPL's total invested assets (excluding unit-linked product assets) as at 31 December 2008 (2007: 82.0%).

LIFE INSURANCE BUSINESS (Continued)

The classification of TPL's investments in securities under HTM, AFS, DTPL and LR was as follows:

At 31 December 2008, HK\$ million

	HTM	AFS	DTPL	LR	Total
Debt securities	19,222.47	23,634.69	617.43	2,063.75	45,538.34
Direct equity securities	-	1,034.86	67.18	-	1,102.04
Equity investment funds	-	2,360.72	2,411.76	-	4,772.48
	<u>19,222.47</u>	<u>27,030.27</u>	<u>3,096.37</u>	<u>2,063.75</u>	<u>51,412.86</u>

At 31 December 2007, HK\$ million

	HTM	AFS	DTPL	LR	Total
Debt securities	-	25,094.06	340.16	256.31	25,690.53
Direct equity securities	-	4,168.80	1,664.78	-	5,833.58
Equity investment funds	-	2,220.71	3,272.50	-	5,493.21
	<u>-</u>	<u>31,483.57</u>	<u>5,277.44</u>	<u>256.31</u>	<u>37,017.32</u>

The debt securities classified by type and class were as follows:

At 31 December, HK\$ million

	2008	2007
Central governments and central banks	19,204.89	13,529.67
Banks and other financial institutions	8,465.89	2,911.76
Corporate entities	17,867.56	9,249.10
	<u>45,538.34</u>	<u>25,690.53</u>

LIFE INSURANCE BUSINESS (Continued)

The total investment income and the investment yield of TPL on a pre-tax basis recognized in the consolidated income statement were as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net investment income	3,051.63	1,591.93	91.7%
Net realized investment (losses)/gains	(834.45)	3,758.60	-
Net unrealized investment (losses)/gains	(1,592.69)	452.18	-
Impairment on AFS equities	(94.11)	-	-
Total investment income	530.38	5,802.71	(90.9%)
Less: Investment (losses)/gains attributable to unit-linked products	(2,146.67)	553.12	-
Total investment income excluding unit-linked products income	2,677.05	<u>5,249.59</u>	(49.0%)
Total investment yield excluding unit-linked products income	5.3%	15.6%	(10.3 pts)

TPL's total investment income was a gain of HK\$2,677.05 million for the Year, a significant decline from the profit of HK\$5,249.59 million in the Last Year. Sharp declines in equities traded in the PRC was the primary factor behind TPL's large investment losses, both realized and unrealized, as well as the impairment on AFS equities. Although the recurrent income from bank deposits and fixed income securities increased significantly, it could not overcome the significant losses in equities, which resulted in the lower total investment yield for 2008. The above-mentioned investment income and investment yield figures do not include a net exchange loss of HK\$81.66 million (2007: HK\$86.61 million).

LIFE INSURANCE BUSINESS (Continued)

The details of TPL's investment (loss)/income on a pre-tax basis was as follows:

For the year ended 31 December 2008, HK\$ million

	Recognized in the consolidated income statement					Sub total	Unrealized gains/ (losses) recognized in the fair value reserve	Grand total
	Interest income/ (expense)	Dividend income	Realized (losses)/ gains	Unrealized gains/ (losses)	Impairment			
Debt securities								
HTM	421.65	-	-	-	-	421.65	-	421.65
AFS	1,103.07	-	(29.08)	-	-	1,073.99	1,380.58	2,454.57
DTPL	8.49	-	277.10	0.49	-	286.08	-	286.08
LR	42.52	-	-	-	-	42.52	-	42.52
Direct equity securities								
AFS	-	23.51	815.69	-	(60.00)	779.20	(1,254.28)	(475.08)
DTPL	-	6.83	(709.34)	(317.02)	-	(1,019.53)	-	(1,019.53)
Equity investment funds								
AFS	-	339.75	(358.96)	-	(34.11)	(53.32)	(1,154.85)	(1,208.17)
DTPL	-	816.87	(829.86)	(1,276.16)	-	(1,289.15)	-	(1,289.15)
Cash and bank deposits	345.47	-	-	-	-	345.47	-	345.47
Securities sold under repurchase agreements	(79.28)	-	-	-	-	(79.28)	-	(79.28)
Others	22.75	-	-	-	-	22.75	-	22.75
	1,864.67	1,186.96	(834.45)	(1,592.69)	(94.11)	530.38	(1,028.55)	(498.17)

For the year ended 31 December 2007, HK\$ million

	Recognized in the consolidated income statement					Sub total	Unrealized (losses)/ gains recognized in the fair value reserve	Grand total
	Interest income/ (expense)	Dividend income	Realized (losses)/ gains	Unrealized gains	Impairment			
Debt securities								
AFS	943.88	-	(0.54)	-	-	943.34	(2,386.70)	(1,443.36)
DTPL	3.40	-	97.84	55.66	-	156.90	-	156.90
LR	5.65	-	-	-	-	5.65	-	5.65
Direct equity securities								
AFS	-	11.93	1,879.75	-	-	1,891.68	1,414.31	3,305.99
DTPL	-	4.14	485.66	56.88	-	546.68	-	546.68
Equity investment funds								
AFS	-	256.30	710.94	-	-	967.24	451.17	1,418.41
DTPL	-	366.13	584.95	339.64	-	1,290.72	-	1,290.72
Cash and bank deposits	270.31	-	-	-	-	270.31	-	270.31
Securities sold under repurchase agreements	(285.33)	-	-	-	-	(285.33)	-	(285.33)
Others	15.52	-	-	-	-	15.52	-	15.52
	953.43	638.50	3,758.60	452.18	-	5,802.71	(521.22)	5,281.49

LIFE INSURANCE BUSINESS (Continued)

Net Policyholders' Benefits

The net policyholders' benefits of TPL are summarized as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net claims	592.49	459.94	28.8%
Surrenders	3,472.70	3,452.95	0.6%
Annuity and maturity payments	102.87	83.00	23.9%
Policy dividends	120.51	71.04	69.6%
	4,288.57	4,066.93	5.5%

Net Commission Expenses

The net commission expenses of TPL were as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net commission expenses	2,026.97	1,645.50	23.2%
Ratio of net commission expenses to gross premiums written	9.6%	10.1%	(0.5 pt)

Administrative and Other Expenses

The administrative and other expenses of TPL are summarized as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Staff costs	1,214.43	866.82	40.1%
Rental expenses	153.96	95.73	60.8%
Others	1,303.22	938.92	38.8%
	2,671.61	1,901.47	40.5%

Financial Strength and Solvency Margin

The solvency margin ratios of TPL under the CIRC regulations were as follows:

At 31 December, RMB million

	2008	2007
Actual Solvency Margin	4,740	3,501
Minimum Statutory Solvency Margin	2,175	1,625
Solvency Margin Ratio	218%	215%

PROPERTY AND CASUALTY INSURANCE BUSINESS

The Group's property and casualty insurance segment is operated by TPI, which is a PRC-incorporated company and is 50.05%-owned by the Group. (Previously, before 15 July 2008, TPI was an associate of CIH and was consolidated under the equity accounting method). It is principally engaged in the underwriting of motor, marine and non-marine insurance policies in Mainland China.

On 15 July 2008, the Company contributed additional capital of RMB265,460,000 into TPI. With this capital contribution, CIH's stake in TPI increased from 40.025% to 50.05%, allowing the Company to become the controlling shareholder of TPI. The financial results of TPI for the period from the date of acquisition to 31 December 2008 have been consolidated into the Group financial statements on a line-by-line basis for the year ended 31 December 2008. However, the following key financial data and ratios of TPI cover the full year of 2008. Readers and investors are advised to pay attention to these details when reading the consolidated financial statements.

For the year ended 31 December, HK\$ million

	2008	2007	Change
Gross premiums written	4,778.54	3,500.44	36.5%
Net premiums written	3,979.05	2,983.12	33.4%
Net earned premiums	3,660.00	2,361.69	55.0%
Net claims incurred	(2,276.66)	(1,381.79)	64.8%
Net commission expenses	(303.45)	(178.33)	70.2%
Total investment income	34.04	333.88	(89.8%)
Net exchange loss	(10.78)	(16.22)	(33.5%)
Administrative and other expenses	(1,663.43)	(1,201.65)	38.4%
Finance costs	(5.03)	-	-
Underwriting loss	(593.14)	(400.08)	48.3%
Loss before taxation	(574.89)	(92.19)	6.2 times
Loss after taxation	(622.99)	(145.68)	4.3 times
Loss attributable to the equity holders	(280.50)	(58.31)	4.8 times
- in form of associate	(113.25)	(58.31)	
- in form of subsidiary	(167.25)	-	
Technical reserves ratio	114.0%	100.9%	13.1 pts
Retained ratio	83.3%	85.2%	(1.9 pts)
Earned premiums ratio	76.6%	67.5%	9.1 pts
Loss ratio ¹	62.2%	58.5%	3.7 pts
Expense ratio ²	49.7%	46.2%	3.5 pts
Combined ratio ³	111.9	104.7	7.2 pts

¹ The loss ratio is based on net earned premiums.

² The expense ratio is based on net premiums written. The management believes that calculating the expense ratio based on net premiums written is a fairer indicator and better reflects the underwriting performance of TPI. If the net earned premiums basis is applied, then the expense ratio would be 54.0% for the Year (2007: 58.4%).

³ The combined ratio is the sum of the loss ratio and the expense ratio. If the expense ratio is based on net earned premiums, then the combined ratio would be 116.2 for the Year (2007: 116.9).

PROPERTY AND CASUALTY INSURANCE BUSINESS *(Continued)*

The key operational data of the property and casualty insurance business is summarized below:

	2008	2007	Change
Market share ¹	1.7%	1.6%	0.1 pt
Number of provincial branches	27	22	5
Number of sub-branches and marketing centres	455	280	175
Number of in-force policies	4,417,198	3,539,279	877,919
Number of individual agents	1,338	545	793
Number of direct sales representatives	3,661	2,459	1,202
Total investment yield ²	1.1%	16.8%	(15.7pts)

¹ Based on gross premiums written in accordance with PRC GAAP and published by the CIRC.

² Excluding exchange gain/(loss) incurred from foreign currency capital assets.

Loss Attributable to the Equity Holders

The property and casualty insurance business incurred a net loss to the equity holders of HK\$280.50 million during the Year (2007: HK\$58.31 million). The increase in losses was mainly due to the significant increase in premiums, which resulted in higher acquisition costs accounted for in the Year, the current lack of scale of operations, higher claims expenses from natural disasters, and a significant decline in investment returns, primarily because of equity investment losses from shares traded in the PRC, during the Year.

PROPERTY AND CASUALTY INSURANCE BUSINESS (Continued)

Gross Premiums Written

TPI's gross premiums written increased by 36.5% to HK\$4,778.54 million from HK\$3,500.44 million in the Last Year. The detailed breakdown of TPI's gross premiums written was as follows:

For the year ended 31 December, HK\$ million

Business Line	2008	% of Total	2007	% of Total
Motor	3,761.13	78.7%	2,754.99	78.7%
Marine	199.80	4.2%	160.37	4.6%
Non-marine	817.61	17.1%	585.08	16.7%
	4,778.54	100.0%	3,500.44	100.0%

Net Claims Incurred

TPI's net claims incurred increased by 64.8% to HK\$2,276.66 million from HK\$1,381.79 million in the Last Year. During the Year, the net retained losses arising from the snowstorm in the southern provinces of Mainland China during January and February and the earthquake in Sichuan Province of Mainland China on 12 May were HK\$68.60 million and HK\$26.34 million, respectively, adding approximately 2.6 points to the incurred loss and combined ratios. TPI's loss ratio increased slightly by approximately 1.1 percentage points in the Last Year if the snowstorm and earthquake claims are excluded.

Combined Ratio

TPI's expense ratio, calculated based on net premiums written, increased to 49.7% from 46.2% in the Last Year. The increase in expense ratio was due to TPI's continued lack of economies of scale which has resulted in relatively high operational expenses, as well as the increasing pressures on acquisition costs due to the continued severe and irrational competition in the PRC property and casualty insurance market. TPI's combined ratio of 111.9 during the Year is higher than the 104.7 in the Last Year and is not optimal. TPI's loss ratios, expense ratios and combined ratios over the past few years were as follows:

For the year ended 31 December

	2008	2007	2006
Loss ratio	62.2%	58.5%	56.6%
Expense ratio	49.7%	46.2%	44.6%
Combined ratio	111.9	104.7	101.2

PROPERTY AND CASUALTY INSURANCE BUSINESS (Continued)

Investment Performance

The composition of investments held by TPI was as follows:

At 31 December, HK\$ million

	2008	% of Total	2007	% of Total
Debt securities	2,105.07	51.6%	158.05	5.5%
Direct equity securities	10.29	0.3%	193.76	6.8%
Equity investment funds	351.17	8.6%	491.82	17.2%
Cash and bank deposits	1,612.70	39.5%	2,020.46	70.5%
Total invested assets	4,079.23	100.0%	2,864.09	100.0%

During the Year, because of the extraordinarily challenging investment market conditions in the PRC, TPI was very cautious in its asset allocation for its investment portfolio. Equity investments were significantly reduced, while debt securities and cash and bank deposits were increased to a combined total of approximately 91.1% of total invested assets as at 31 December 2008 (2007: 76.0%).

The classification of TPI's investments in securities under HTM, AFS, DTPL and LR was as follows:

At 31 December 2008, HK\$ million

	HTM	AFS	DTPL	LR	Total
Debt securities	426.48	1,576.53	-	102.06	2,105.07
Direct equity securities	-	10.29	-	-	10.29
Equity investment funds	-	351.17	-	-	351.17
	426.48	1,937.99	-	102.06	2,466.53

At 31 December 2007, HK\$ million

	HTM	AFS	DTPL	LR	Total
Debt securities	-	158.05	-	-	158.05
Direct equity securities	-	193.76	-	-	193.76
Equity investment funds	-	426.08	65.74	-	491.82
	-	777.89	65.74	-	843.63

The debt securities classified by type and class were as follows:

At 31 December, HK\$ million

	2008	2007
Central governments and central banks	1,128.55	-
Banks and other financial institutions	616.48	116.82
Corporate entities	360.04	41.23
	2,105.07	158.05

PROPERTY AND CASUALTY INSURANCE BUSINESS (Continued)

The total investment income and the investment yield of TPI's investments on a pre-tax basis recognized in the consolidated income statement were as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net investment income	235.30	113.63	2.1 times
Net realized investment (losses)/gains	(156.29)	245.53	-
Net unrealized investment losses	-	(25.28)	-
Impairment on AFS equities	(44.97)	-	-
Total investment income	34.04	333.88	(89.8%)
Total investment yield	1.1%	16.8%	(15.7pts)

TPI's total investment income was HK\$34.04 million for the Year, a large decline from the profit of HK\$333.88 million in the Last Year. Sharp declines in equities traded in the PRC was the primary factor behind TPI's large investment losses, both realized and unrealized, as well as the impairment on AFS equities. Although the recurrent income from bank deposits and fixed income securities increased substantially, it could not offset the significant losses in equities, which resulted in the much lower total investment yield for 2008. The above-mentioned investment income and investment yield figures do not include a net exchange loss of HK\$10.78 million (2007: HK\$16.22 million).

The details of TPI's investment (loss)/income on a pre-tax basis were as follows:

For the year ended 31 December 2008, HK\$ million

	Recognized in the consolidated income statement					Sub total	Unrealized gains/(losses) recognized in the fair value reserve	Grand total
	Interest income/(expense)	Dividend income	Realized gains/(losses)	Unrealized (losses)/gains	Impairment			
Debt securities								
HTM	5.30	-	-	-	-	5.30	-	5.30
AFS	43.74	-	0.63	-	-	44.37	26.56	70.93
DTPL	-	-	-	-	-	-	-	-
LR	1.61	-	-	-	-	1.61	-	1.61
Direct equity securities								
AFS	-	0.70	10.89	-	-	11.59	(61.52)	(49.93)
Equity investment funds								
AFS	-	134.97	(168.18)	-	(44.97)	(78.18)	(129.59)	(207.77)
DTPL	-	0.02	0.37	-	-	0.39	-	0.39
Cash and bank deposits	49.04	-	-	-	-	49.04	-	49.04
Securities sold under repurchase agreements	(0.08)	-	-	-	-	(0.08)	-	(0.08)
	99.61	135.69	(156.29)	-	(44.97)	34.04	(164.55)	(130.51)

PROPERTY AND CASUALTY INSURANCE BUSINESS (Continued)

For the year ended 31 December 2007, HK\$ million

	Recognized in the consolidated income statement					Unrealized (losses)/ gains recognized in the fair value reserve	Grand total
	Interest income/ (expense)	Dividend income	Realized (losses)/ gains	Unrealized losses	Impairment	Sub total	
Debt securities							
AFS	13.25	-	(18.42)	-	-	(5.17)	(24.81)
Direct equity securities							
AFS	-	0.09	64.37	-	-	64.46	161.38
DTPL	-	0.10	45.46	-	-	45.56	45.56
Equity investment funds							
AFS	-	42.88	35.34	-	-	78.22	136.26
DTPL	-	31.57	118.78	(25.28)	-	125.07	125.07
Cash and bank deposits	27.06	-	-	-	-	27.06	27.06
Securities sold under repurchase agreements	(1.32)	-	-	-	-	(1.32)	(1.32)
	<u>38.99</u>	<u>74.64</u>	<u>245.53</u>	<u>(25.28)</u>	<u>-</u>	<u>333.88</u>	<u>469.20</u>

Net Commission Expenses

The net commission expenses of TPI were as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Net commission expenses	303.45	178.33	70.2%
Ratio of net commission expenses to gross premiums written	6.4%	5.1%	1.3 pts

Administrative and Other Expenses

The administrative and other expenses of TPI are summarized as follows:

For the year ended 31 December, HK\$ million

	2008	2007	Change
Staff costs	658.03	265.68	2.5 times
Rental expenses	62.13	45.69	36.0%
Business tax and additional charges	265.55	205.45	29.3%
Others	677.72	684.83	(1.0%)
	<u>1,663.43</u>	<u>1,201.65</u>	38.4%

PROPERTY AND CASUALTY INSURANCE BUSINESS (Continued)

Financial Strength and Solvency Margin

The solvency margin ratios of TPI under the CIRC regulations were as follows:

At 31 December, RMB million

	2008	2007
Actual Solvency Margin	919	564
Minimum Statutory Solvency Margin	532	435
Solvency Margin Ratio	173%	130%

OUTLOOK

Reinsurance business – CIRE

The turmoil in the financial markets since the end of 2007 and continuing throughout 2008 to today has negatively impacted the financial strength of almost all financial institutions worldwide, including reinsurers. As a result, reinsurance capacity has decreased at a time when clients are becoming more cautious in choosing their reinsurance counterparties. Such an environment gives an advantage to more established reinsurers, such as CIRE, over the many start-up reinsurers which have begun operations in recent years. Clients are also now looking to spread their reinsurance placements over several reinsurers in order to reduce their concentration risks and dependence on specific reinsurers, having seen the rapid demise of previously well-established and prestigious international financial institutions. Such diversification needs among clients is also an advantage for CIRE, especially in markets in which it is not a large player.

Although CIRE has been affected by the financial turbulence (primarily equity investment losses), the reinsurance operations have emerged from the difficult times of 2008 in relatively healthy condition. CIRE's capital and surplus in support of its underwriting has decreased by only approximately 8.3% (mainly due to negative AFS reserve movements), which is relatively minor compared to reinsurance companies worldwide. CIRE produced an operating profit in 2008, continues to have a sound and liquid asset base, and has retained a deeply loyal and experienced management and professional team, all of whom have seen and gone through the peaks and troughs of various reinsurance market cycles. CIRE is thus well-positioned to take advantage of the opportunities that are now arising amidst the ongoing financial crisis.

For the January 2009 renewals of reinsurance contracts in many Asian countries, which traditionally account for more than half of the gross premiums written of CIRE, the pricing of the various markets have hardened by varying degrees, with property reinsurance contracts in Mainland China having the steepest corrections in terms and conditions, in favor of the reinsurers. In addition, thus far in 2009, the world has seen very unusual and extreme weather patterns in many countries, which have further reaffirmed concerns over global weather changes. Such ongoing and substantial changes in global weather will undoubtedly generate higher demand and higher pricing for catastrophe-related reinsurance.

In pursuing such opportunities, CIRE will continue focusing on its risk management policies and seek to further enhance its catastrophe and financial modeling capabilities. CIRE will also maintain its long established conservative underwriting policy in controlling its risks and exposures. Within its core markets in Asia, CIRE is optimistic about business growth and development prospects in the short- to medium-term. With the opening of the Beijing branch, CIRE's prospects and capabilities for serving the vast potential of the reinsurance market of Mainland China have improved substantially. With the economy likely to continue growing at relatively fast rates over the long term and with insurance still very much under-penetrated in the country, CIRE believes that Mainland China will be a key driver of its growth in the years to come.

The difficult year of 2008 has further concentrated the minds of CIRE's senior management and professionals on the importance of basic principles and the necessity for strict discipline in carefully and constantly evaluating reinsurance risks, insisting on risks commensurate with terms and conditions, and striving to provide the most efficient and world-class customer services to its clients. Given the continued uncertainty and volatility of global capital markets, the investment policies and investment portfolio will continue to be managed in a conservative and prudent fashion, with a special emphasis placed upon risk management and conservative asset allocation. With such old fashioned, but durable, values and principles, CIRE is highly confident of being able to continue delivering its promises to its clients and shareholders, and remains an admired Chinese reinsurer in the global markets.

Life insurance business – TPL

The senior management and professionals of TPL are cautiously optimistic for the prospects of the PRC life insurance industry in 2009. Although the current global economic slowdown has also impacted the PRC, it is expected that China's economy will be resilient and still manage to produce relatively attractive economic expansion during the coming year. With life insurance penetration still at very low levels, the prospects for the PRC life insurance market remain very bright over the long term.

In 2009, TPL has launched a major initiative to further reinforce and strengthen its prioritization of regular premium sales. TPL intends to grow its regular premium sales at both its individual agency and bancassurance distribution channels at rates which are much higher than industry averages. Sales and management professionals at all levels of management will be evaluated and assessed based on regular premium sales production, which will be heavily weighted in the overall evaluation. Overall, TPL is highly confident that its strategic prioritization of regular premium sales in the years to come is the best next step for the life insurance operations, and is the most optimal and prudent strategy to take under any macroeconomic condition or scenario in the PRC now and in the future.

TPL will also continue to focus heavily on maintaining effective cost controls throughout its organization. While building scale and further expanding its network infrastructure throughout China will be pursued (25 new sub-branches and 100 marketing centres are planned to be opened in 2009), effective expense management will continue to be focused upon. Given the continued uncertainty and volatility of global capital markets, the investment policies and investment portfolio will continue to be managed in a conservative and prudent fashion, with a special emphasis placed upon risk management and conservative asset allocation.

Property and casualty insurance business – TPI

In the near term, the fundamentals and competitive conditions of the PRC property and casualty insurance industry remain challenging. Following a disappointing year of operational performance, the senior management and professionals of TPI have placed the utmost priority on loss and expense controls. Although TPI will likely again produce operational losses in 2009, its rigid and strict focus on reigning in losses and expenses, in combination with a carefully planned and coordinated expansion of premium growth, should allow TPI to eventually achieve the economies of scale necessary for sustainable profitability. TPI hopes to be able to consistently achieve combined ratios of below 100 sometime within the next 3 to 5 years.

In 2009, TPI will launch a new initiative for centralized underwriting for all of its retail, motor insurance business and will also introduce a more sophisticated and refined control system on fixed and variable costs. Previously, underwriting for motor insurance was conducted at the branch level. Now, such underwriting must take place at TPI's central headquarters in Shenzhen, with policy issuance conducted at the branch level. Although such a structure and change of cost controls may result in lower premiums being written in the short term, TPI firmly believes that the benefits from centralized underwriting are significant, particularly in further professionalising TPI's underwriting capabilities and best allowing the property and casualty insurance business to achieve higher risk quality, more efficient loss control, and better branch utilization.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank deposits as at 31 December 2008 amounted to HK\$15,620.70 million (2007: HK\$10,520.27 million). There was no bank borrowing during the Year except for certain temporary bank overdrafts for insignificant amounts. The interest-bearing notes as at 31 December 2008 amounted to HK\$5,376.03 million (2007: HK\$2,960.38 million). The gearing ratio, which represents interest-bearing notes issued divided by the total assets of the Group, was 6.7% as at 31 December 2008 (2007: 5.3%).

CAPITAL STRUCTURE

During the Year, the Company issued 6,449,000 new shares (2007: 9,021,000 shares) for cash under the Company's employee share option scheme. Net proceeds received for the shares issued for cash in aggregate amounted to HK\$15.41 million (2007: HK\$22.35 million).

STAFF AND STAFF REMUNERATION

As at 31 December 2008, the Group had a total of 24,048 employees (2007: 9,925 employees), an increase of 14,123 employees. Total remuneration for the Year amounted to HK\$1,799.14 million (2007: HK\$1,130.63 million), an increase of 59.1%. Bonuses are linked to both the performance of the Group and the performance of the individual.

MAJOR EVENT DURING THE YEAR

On 20 March 2008, TPL entered into a Joint Bidding Agreement with TPI, CIHC and The Ming An Insurance Company (China) Limited (“Ming An China”) in relation to the purchase of a piece of land in Shenzhen and development of a commercial office building. The amount to be invested by TPL was agreed to be RMB289,000,000.

On 30 June 2008, CIIH entered into the conditional capital contribution agreement with CIHC, ICBC (Asia) and TPI pursuant to which CIHC and the Company agreed to contribute, in cash, in aggregate an amount of RMB270,000,000 as additional registered capital into TPI. Of the aggregate amount, RMB4,540,000 was to be contributed by CIHC and RMB265,460,000 was to be contributed by CIIH. ICBC (Asia) decided to not participate in the capital contribution. TPI is an associated company of the Company, in which CIIH holds a 40.025% equity interest prior to the capital contribution. Upon completion, each of CIHC, the Company and ICBC (Asia) was directly interested in 42.020%, 50.050% and 7.930%, respectively, of the equity interests in TPI. On 30 June 2008, CIHC, CIIH and ICBC (Asia) also entered into the conditional option deed pursuant to which CIHC agreed to grant the right to ICBC (Asia) at nil consideration to, conditional upon completion, acquire from CIHC the equity interest of approximately 1.647% in TPI as enlarged by the capital contribution for a consideration of RMB25,858,900 within six months from the date of the option deed, or such later date as the parties may extend pursuant to the terms of the option deed. The option will be exercisable at the option of ICBC (Asia), and if exercised by ICBC (Asia), will have to be exercised in full. The Company has waived its right to purchase the option interest if the option is exercised by ICBC (Asia). The capital contribution agreement and the option deed were approved by the Independent Shareholders of CIIH at an extraordinary general meeting of the Company held on 15 July 2008.

On 5 November 2008, TPI and TPL entered into a supplemental agreement in relation to the purchase of land and the development of the property in Shenzhen with CIHC and Ming An China to amend the total investment amount from the parties as set out in the joint bidding agreement dated 20 March 2008. According to the joint bidding agreement, the percentages of the total investment amount for the transaction required from each of TPI, CIHC, TPL and Ming An China were 15%, 55%, 15% and 15%, respectively. Under the supplemental agreement, the percentages of the total investment amount for the transaction required from each of TPI, CIHC, TPL and Ming An China was amended to be 15%, 5%, 65% and 15%, respectively. TPI and TPL are expected to invest a total of approximately RMB289,000,000 and RMB1,251,000,000, respectively, for the transaction under the supplemental agreement. The purchase of the land was completed in April 2008 and the construction of the property is expected to commence in early 2009 and will last for a period of three years with a tentative completion date set to be in the second half of 2011. The joint bidding agreement and supplemental agreement were approved by the independent shareholders of CIIH at an extraordinary general meeting of the Company held on 9 December 2008.

CONTINGENT LIABILITIES

The Group has received a query issued by the Inland Revenue Department of Hong Kong in relation to the taxability of certain investment income from its offshore investments for the years of assessment from 1999 to 2006. The directors consider that the Group has a strong legal base to support its tax position. As such, no provision for a potential tax exposure of approximately HK\$31,600,000 (2007: HK\$31,600,000) was made at 31 December 2008.

Save as herein disclosed and other than those incurred in the normal course of the Group’s insurance businesses, there were no outstanding litigation nor any other contingent liabilities as at 31 December 2008.

EMBEDDED VALUE OF TPL

1. Background

The Group consists of three major business segments, which are the reinsurance business, life insurance business and property and casualty business. In particular, the life insurance segment operated by TPL, a 50.05%-owned subsidiary, has become an increasingly significant part of the Group in terms of gross premiums written, total assets and profitability. In order to provide investors with additional parameters to evaluate the profitability and valuation of TPL, the Group has decided to disclose the Embedded Value and New Business Value of TPL. The Embedded Value consists of the shareholders' adjusted net worth plus the present value of future expected cash flows to shareholders from the in-force business, less the cost of holding regulatory solvency capital to support the in-force business. The New Business Value represents an actuarially determined estimate of the economic value arising from the new life insurance business issued during the past one year.

2. Basis of preparation

The Group has appointed PricewaterhouseCoopers ("PwC"), an international firm of consulting actuaries, to examine whether the methodology and assumptions used by TPL in the preparation of the embedded value and the new business value as at 31 December 2008 are consistent with standards generally adopted by insurance companies in the PRC. In the opinion of the management, PwC has not identified material inconsistencies between the methodology and assumptions used by TPL and those under the standards generally adopted by insurance companies in the PRC.

3. Cautionary Statement

The calculations of embedded value and the new business value are based on certain assumptions with respect to future experience and thus the actual results could differ significantly from what is envisioned when these calculations are made. From an investor's perspective, the valuation of the Company is measured by the stock market price of the Company's shares on any particular day. In valuing the Company's shares, investors should take into account not only the embedded value and the new business value, but also various other considerations. In addition, TPL is 50.05%-owned by the Company. The embedded value and the new business value as at 31 December 2008 as disclosed below should therefore not be applied 100% in valuing the Company. Investors are advised to pay particular attention to this factor, as well as the other assumptions underlying the calculations of the embedded value and new business value of TPL, if they believe such calculations are important and material to the valuation of the Company.

4. Embedded Value

At 31 December, HK\$ million

		2008	2007
Adjusted net worth	a	3,083	3,368
Value of inforce business before cost of capital and expense overrun	b	7,069	4,593
Cost of capital	c	1,201	640
Expense overrun	d	403	442
Value of inforce business after cost of capital and expense overrun	e=b-c-d	5,465	3,511
Embedded Value	f=a+e	8,548	6,879

Adjusted net worth is the audited shareholders' net assets of TPL as measured on a PRC statutory basis.

5. New Business Value

At 31 December, HK\$ million

		2008	2007
New business value before cost of capital and expense overrun	a	2,099	1,445
Cost of capital	b	398	225
Expense overrun	c	836	617
New business value after cost of capital and expense overrun	d=a-b-c	865	603

TPL's expense overrun is due to its significant investments in establishing a branch network infrastructure, initiating relationships with business partners, establishing computer systems and hiring a highly professional management team. As such expense overrun is due to the start-up costs of beginning and expanding upon TPL's business operations, the management of the Group and TPL believe that the expense overrun will diminish over time as TPL's scale of operations increases in the future.

6. Movement Analysis of Embedded Value

The following analysis shows the movement of the Embedded Value (after expense overrun) from 1 January 2008 to 31 December 2008.

HK\$ million

	<i>Notes</i>	
Embedded Value as at 1 January 2008		6,879
New business value	<i>a</i>	865
Expected return on Embedded Value	<i>b</i>	635
Assumption and modeling changes	<i>c</i>	(200)
Investment return variance	<i>d</i>	(442)
Expense variance	<i>e</i>	(59)
Income tax variance	<i>f</i>	318
Other experience variance	<i>g</i>	123
Exchange gain	<i>h</i>	429
Embedded Value as at 31 December 2008		<u>8,548</u>

Notes:

- (a) New business contribution from sales of new business in 2008.
- (b) Return on value of in-force business plus expected interest on adjusted net assets.
- (c) Changes from model improvements and assumption changes having impact on the future distributable earnings of the in-force business.
- (d) Difference between the actual investment return and expected investment return in 2008.
- (e) Difference between the actual and expected expense in 2008.
- (f) Difference between the actual and expected income tax in 2008.
- (g) Difference between actual experience and expected experience mainly including mortality, morbidity, lapse, business tax and policyholder dividends.
- (h) Exchange gain arising from appreciation of RMB.

7. Key Assumptions

TPL has adopted the best estimate approach in setting the assumptions used in the calculation of its embedded value and new business value. The assumptions have been based on the actual experience of TPL and certain benchmarks set by referencing general PRC economic conditions and the experience of other life insurance companies.

7.1 *Risk discount rate*

The risk discount rate represents the long-term, post-tax cost of capital of the investor for whom the valuation is made, together with an allowance for risk, taking into account factors such as the political and economic environment in the PRC.

As calculated, the discount rate is equal to the risk-free rate plus a risk premium. The risk free rate is based on the PRC ten-year government bond and the risk premium reflects the risk associated with future cash flows, including all of the risks which have not been considered in the valuation.

The risk discount rate currently applied by TPL is 11.5% for all in force and new business.

7.2 *Investment return*

Future investment returns have been calculated as the weighted average of the investment returns on existing assets and new assets assuming an investment return of 4.2% (2007: 5.0%) on new assets from fixed income securities. The investment returns on existing assets have been determined by the projected investment income in future years divided by the projected value of the assets. The calculation of projected investment income and the value of assets are based on yield to maturity, term to maturity and the book value of the assets.

The investment returns have been assumed to be 4.0% in 2009 (2007: 4.57%), increasing to 4.5% (2007: 5.0%) in 2020 and thereafter.

7.3 *Expenses*

Expenses have been projected based on benchmark assumptions. The expense overrun is derived from TPL's recent experience studies, and is applied to both the value of inforce business and new business value.

7.4 *Tax*

The tax rate is assumed to be 25% according to the tax regulations in the PRC.

7.5 *Mortality*

The experience mortality rates have been based on 70% of the China Life (2000-2003) table for non-annuities, with a three-year selection period. For annuitants, 80% and 70% of the China Life Annuity (2000-2003) table for males and females, respectively, have been assumed.

7.6 *Morbidity*

The experience morbidity assumptions have been based on the Group's own pricing tables. The loss ratios for short term accident and health insurance business have been assumed to be in the range of 21% to 75%.

7.7 *Lapses*

The lapse assumptions have been based on TPL's actuarial pricing assumptions and adjusted to reflect the results of its recent experience studies.

7.8 *Required capital*

The required capital has been based on 120% of minimum solvency margin (2007: 100%).

8. Sensitivity Testing

The sensitivity testing in respect of the following key assumptions are summarized below.

At 31 December 2008, HK\$ million

Assumptions	Value of inforce business after cost of capital and expense overrun	New business value after cost of capital and expense overrun
Base scenario	5,465	865
Risk discount rate of 10.5%	5,964	1,050
Risk discount rate of 12.5%	5,032	705
Investment return increased by 25bp every year	6,037	1,034
Investment return decreased by 25bp every year	4,978	697
10% increase in maintenance expenses	5,265	794
10% decrease in maintenance expenses	5,664	938
10% increase in mortality and morbidity rates and claims ratio	5,388	846
10% decrease in mortality and morbidity rates and claims ratio	5,542	887
10% increase in lapse rates	5,426	843
10% decrease in lapse rates	5,502	889
Policyholder dividend increased to 80%	5,136	736
Lapse rates for Universal Life increased to 50% at the end of the 10 th policy year	5,335	866
Required capital at 100% of solvency margin	5,716	948
Required capital at 150% of solvency margin	5,036	730

BIOGRAPHICAL DETAILS OF DIRECTORS, COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

EXECUTIVE DIRECTORS

Mr. Lin Fan, aged 50, is the chairman and an executive director of the Company. Mr. Lin was appointed as the vice president of CIHC and CIHK in July 1999, a managing director of CIHC and CIHK in July 2000, and the vice chairman of CIHC and CIHK in August 2004. He was appointed as the general manager of CIHC and CIHK in May 2005, and the chairman of CIHC and CIHK in August 2008. Mr. Lin was a director of TPI from December 2001 to December 2006. He is currently the chairman and a non-executive director of The Ming An (Holdings) Company Limited. Mr. Lin is an insurance specialist with more than 29 years of experience in the insurance industry. Mr. Lin was the deputy general manager of the People's Insurance Company of China ("PICC"), Guangzhou Branch from September 1990 to September 1996 and the general manager of PICC, Shenzhen Branch from September 1996 to July 1999.

Mr. Song Shuguang, aged 47, is the vice chairman and an executive director of the Company, and is responsible for the life insurance operations of TPL. Mr. Song holds a Bachelor degree in Economics from Jilin University and a Master degree in Economics from the Postgraduate School of Jilin University. Mr. Song has been a managing director of CIHC since June 2002 and a managing director of CIHK since August 2002. He was appointed as the general manager of CIHC and CIHK in August 2008. He has been the chairman of TPL from November 2004 to November 2008. He was appointed as a director of TPP since December 2004 and a director of TPAM since February 2007. Mr. Song was the deputy director of the General Affairs Department and Policy & Legal and Policy Research of the State Planning Commission of the PRC from August 1985 to September 1993; the division chief and departmental deputy general manager of PICC from October 1993 to October 1998; and the chief head of the Finance & Accounting Department of the CIRC from November 1998 to April 2000.

Mr. Xie Yiqun, aged 48, is an executive director of the Company. Mr. Xie graduated from the Insurance, Finance Department of Nankai University, Tianjin, China. He holds a Master degree in Administration from Middlesex University Business School in the United Kingdom, and has over 25 years of experience in the insurance and finance industries. Mr. Xie has been the general manager of the Foreign Business Department of PICC of China, Zhejiang Branch and the deputy general manager of the Wenzhou Branch respectively. He has been the director and general manager of China Insurance Co. (UK) Ltd. and China Insurance Co., (Singapore) Pte. Ltd. Mr. Xie was the chairman of TPL from December 2001 to November 2004. Mr. Xie has been a managing director and deputy general manager of CIHC and CIHK since June 2004 and is responsible for the asset management and overseas operations. He has been the chief executive officer of CIGAML since November 2004 and was appointed as chairman of CIGAML since November 2008. Mr. Xie was appointed as chairman of TPAM since February 2007 and the chairman of China Insurance Group Securities Holdings Limited since November 2008.

Mr. He Zhiguang, aged 49, was appointed as an executive director of the Company on 12 March 2009. Mr. He holds a Master degree in Business Administration jointly awarded by the East China University of Science and Technology, China and the University of Canberra, Australia. Mr. He previously served as Deputy Head of life insurance division of the Guangxi Branch of PICC, Deputy General Manager of the Wuzhou Branch of PICC, General Manager (life insurance) of Shanghai Branch of Ping An Insurance (Group) Company of China, Limited. Mr. He was the General Manager of TPL from April 2001 to December 2008 and Chairman of TPP from December 2004 to December 2008. He has been appointed as Deputy General Manager of CIHC and Chairman of TPL since November 2008 and January 2009, respectively. Mr. He is a director of TPL, TPP and TPAM.

Mr. Ng Yu Lam Kenneth, aged 60, is the chief executive officer and an executive director of the Company. Mr. Ng is a fellow of the Chartered Insurance Institute of the United Kingdom. He has more than 30 years of experience in the insurance industry. Mr. Ng is a managing director and assistant president of CIHK, the chairman and chief executive officer of CIRE and a director of TPL and TPI. In December 1980, Mr. Ng joined CIRE and was appointed as the chief executive officer and chairman of CIRE in 2004 and 2008 respectively.

Mr. Shen Koping Michael, aged 40, is the deputy chief executive officer and an executive director of the Company. He was previously the chief financial officer of the Company. Mr. Shen is also the deputy managing director and a director of CIGAML, and is a member of the board of supervisors of TPL. Prior to joining the Company, he was an executive director in the Financial Institutions Group of the Investment Banking Division at Goldman Sachs (Asia) L.L.C. (“Goldman Sachs”). Mr. Shen was responsible for marketing and executing corporate finance and mergers/acquisitions transactions for financial institutions in the Asia ex-Japan region. During his seven years at Goldman Sachs, Mr. Shen developed in-depth knowledge in advising insurance and asset management companies on strategic and operational matters. Mr. Shen received a Juris Doctorate degree with honors in 1994 from Harvard Law School, where he was an executive editor of the *Harvard Law Review*. Mr. Shen graduated as the valedictorian of his class and received a Bachelor of Science in Foreign Service with highest honors in 1991 from Georgetown University, where he majored in International Politics/Relations.

Mr. Lau Siu Mun Sammy, aged 50, is an executive director of the Company, and is responsible for the reinsurance operations of CIRE. Mr. Lau is also a director of TPI, CIRE and SINO-RE. Mr. Lau holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong. He is a fellow of the Chartered Insurance Institute of the United Kingdom. Mr. Lau joined CIRE in July 1981. He has been the general manager of CIRE since March 2004.

NON-EXECUTIVE DIRECTORS

Mr. Li Tao, aged 36, was appointed as a non-executive director of the Company on 12 March 2009. Mr. Li holds a Bachelor of Arts degree from Wuhan University, China. He is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Li previously served at the Business Assurance Division of Coopers & Lybrand in London and the Life Insurance Division of CIRC. He subsequently served as the manager in the Internal Audit Department and Accounts Department of American International Assurance Company Limited, Shanghai Branch. Mr. Li was the chief financial officer of TPL from October 2001 to October 2008. He has been appointed as the chief financial officer of CIHC and CIHK since November 2008.

Dr. Wu Jiesi, aged 57, is an independent non-executive director of the Company. He is also the chairman of the audit committee and a member of the remuneration committee of the Company. Dr. Wu holds a Doctorate degree in Economics. Dr. Wu has extensive experience in finance and management. He conducted post-doctorate research work in theoretical economics at the Nankai University in the PRC and was conferred a professorship qualification by the University in 2001. Dr. Wu served in various capacities with ICBC from 1984 to 1995 and was the president of ICBC Shenzhen Branch. He subsequently served as the deputy mayor of the Shenzhen Municipal Government between 1995 and 1998. Dr. Wu was an assistant to the governor of Guangdong Province from 1998 to 2000. From 2000 to 2005, he acted as a chairman of Guangdong Yue Gang Investment Holdings Company Limited and GDH Limited. He also has been the honorary president of Guangdong Investment Limited and Guangdong Tannery Limited. Dr. Wu was the managing director and chief executive officer of Hopson Development Holdings Limited from April 2005 to January 2008. He also has been the independent non-executive director of Yingli Green Energy Holding Company Limited (listed on the New York Stock Exchange) from May 2007 to August 2008. Dr. Wu is an executive director and vice chairman of China Aoyuan Property Group Limited. He is also the chairman of Zhonghui Mining Industry Africa Limited, an independent non-executive director of Beijing Enterprises Holdings Limited and China Merchants Bank Co., Ltd., non-executive director of China Water Affairs Group Limited, Shenzhen Investment Limited and Silver Base Group Holdings Limited and director of China Life Franklin Asset Management Co., Limited.

Mr. Che Shujian, aged 65, is an independent non-executive director of the Company. Mr. Che is a qualified senior engineer of economic management. He graduated from the School of Economics of Jilin University in China and has extensive experience in economic development and corporate management. Mr. Che was the dean of the designing laboratory, the deputy director and subsequently the director of the Northeast Academy of the China Civil Engineering Institute from 1968 to 1991. He was the director of the Administrative Affairs Office of the Ministry of Construction and Development of the State Council of China from 1991 to 1998. Mr. Che subsequently acted as a specially appointed investigator of the State Council of China from 1998 to 2000. He was an independent non-executive director of China Overseas Land & Investment Ltd. from 2002 to 2003 and a director of China Overseas Holdings Limited, the holding company of China Overseas Land & Investment Ltd., from 2002 to 2003. Mr. Che was the chairman of China Travel International Investment Hong Kong Limited and China Travel Service (Holdings) Hong Kong Limited, the holding company of China Travel International Investment Hong Kong Limited from 2000 to 2006.

Mr. Lau Wai Kit, aged 46, is an independent non-executive director of the Company. Mr. Lau holds a Bachelor of Law degree and a Postgraduate Certificate in Law from the University of Hong Kong. Mr. Lau has over 13 years of experience in practicing law and is a solicitor of the High Court of Hong Kong, an attorney and counselor at law of the Supreme Court of the State of California, a solicitor of the Supreme Court of England and Wales, and an advocate and solicitor of the Supreme Court of Singapore. He is currently a partner of Gobi Partners, Inc., a China-based venture capital firm that focuses on digital media investments. Mr. Lau is also the chairman of the Diamondlite Group, a jewelry manufacturer headquartered in Hong Kong. He is also an independent non-executive director of Tianjin Development Holdings Limited and Shandong Weigao Group Medical Polymer Company Limited and an independent director of WSP Holdings Limited.

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Mr. Chan Man Ko, aged 34, is the chief financial officer of the Company. He is also the Company's company secretary. Mr. Chan holds a Bachelor of Arts degree in Accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and holds a practicing certificate. He is also an associate of the Institute of Chartered Accountants in England and Wales ("ICAEW"). Prior to joining the Company, Mr. Chan was an audit manager in the Financial Institutions Group of an international auditing and accounting company.

REPORT OF THE DIRECTORS

The directors respectfully submit their annual report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of Company is investment holding. The principal activities of the Company's subsidiaries are the underwriting of all classes of global reinsurance business, direct life insurance business in the PRC and direct property and casualty insurance business in the PRC. Apart from these core businesses, the Group also carries on operations in assets management, insurance intermediaries and pensions, and to support its insurance activities, holds money market, fixed income, equity and property investments. The principal activities and other particulars of the subsidiaries are set out in note 17 of the annual results.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 3 of the annual results.

The only information which the Company has maintained relating to its operating results by geographical area is the geographical analysis of its turnover. The directors believe that an analysis of the profit contributions from each geographical area is not required for a proper appraisal of its businesses.

MAJOR INSURANCE CUSTOMERS

The information in respect of the Group's gross premiums written and policy fees attributable to major insurance customers during the financial year is as follows:

	Percentage of the Group's total gross premiums written and policy fees
The largest insurance customer	0.4%
Five largest insurance customers in aggregate	1.2%

Included in the five largest insurance customers in aggregate, representing approximately 0.2% of the total gross premiums written and policy fees, were connected parties of which the shareholder of the Company (which to the knowledge of the directors own more than 5.0% of the Company's share capital) had an interest.

Other than as disclosed above, at no time during the Year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5.0% of the Company's share capital) had any interest in these major insurance customers.

CONSOLIDATED FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2008 and the state of the Company's and the Group's affairs at that date are set out in the consolidated financial statements.

No interim dividend was declared during the Year (2007: Nil). The directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2008 (2007: HK 10 cents per share).

FIXED ASSETS

Details of the movements in fixed assets are set out in note 15 of the annual results.

SHARE CAPITAL

During the Year, shares were issued upon the exercise of options under the Company's share option scheme. Details of the movements in share capital of the Company during the Year are set out in note 37 of the annual results.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of the movements in reserves of the Company and the Group during the Year are set out in note 38 of the annual results.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company did not have any distributable reserves available for distribution (2007: HK\$220.32 million). In addition, the Company's share premium account of HK\$2,218.25 million (2007: HK\$2,201.06 million) as at 31 December 2008 may be distributed in the form of fully paid bonus shares.

DIRECTORS

The directors during the Year and up to the date of this annual results were:

Executive directors

Feng Xiaozeng (*resigned on 7 November 2008*)

Lin Fan

Song Shuguang

Xie Yiqun

He Zhiguang (*appointed on 12 March 2009*)

Ng Yu Lam Kenneth

Shen Koping Michael

Lau Siu Mun Sammy

Non-executive directors

Zheng Changyong (*resigned on 12 March 2009*)

Li Tao (*appointed on 12 March 2009*)

Wu Jiesi*

Che Shujian*

Lau Wai Kit *

** Independent*

In accordance with Article 93 and 97 of the Company's articles of association, Messrs. Xie Yiqun, He Zhiguang, Ng Yu Lam Kenneth, Li Tao, Wu Jiesi and Lau Wai Kit, shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The proposed appointments will not have any specific term, but will be subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's articles of association.

Subject to the approval of the shareholders at the Company's Annual General Meeting, the emoluments of the directors will be determined by the Remuneration Committee and the Board of Directors of the Company.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation from each of the independent non-executive directors in regards to their independence from the Company and considers that each of the independent non-executive directors is independent from the Company.

DIRECTORS' SERVICE CONTRACTS

Messrs. Ng Yu Lam Kenneth and Lau Siu Mun Sammy have entered into service contracts with the Company on 29 May 2000 for an initial period of three years commencing from 1 April 2000. Mr. Shen Koping Michael has entered into a service contract with the Company on 23 July 2002 for an initial period of two years commencing from 15 July 2002. The respective contracts shall continue after their respective initial periods unless and until terminated by either party to such contracts by giving three months' written notice to the other party.

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2008, the interests or short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long Positions in shares and underlying shares of the Company:

Name of directors	Shares		Underlying shares pursuant to share options (Note 1)	Awarded shares (Note 2)	Total interests	Percentage of issued share capital %
	Personal interests	Family interests				
Lin Fan	770,000	-	3,200,000	-	3,970,000	0.28
Song Shuguang	-	-	800,000	-	800,000	0.06
Xie Yiqun	-	-	500,000	-	500,000	0.04
He Zhiguang	-	-	800,000	240,000	1,040,000	0.07
Ng Yu Lam, Kenneth	2,166,000	693,000	1,400,000	82,000	4,341,000	0.31
Shen Koping, Michael	4,279,000	-	875,000	22,000	5,176,000	0.36
Lau Siu Mun, Sammy	1,006,000	-	1,150,000	67,000	2,223,000	0.16
Li Tao	-	-	-	130,000	130,000	0.01

Notes:

- (1) These figures represent interests of options granted to the directors under the Share Option Scheme of the Company adopted on 23 January 2003 to acquire shares of the Company, further details of which are set out in the section "Share Option Scheme".
- (2) These figures represent interests of awarded shares granted, but not yet vested, to the directors under the Employees' Share Award Scheme of the Company adopted on 10 September 2007, details of which are set out in the section "Share Award Scheme".

Save as disclosed above:

- (A) none of the directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and
- (B) during the Year, no directors of the Company nor any of their spouses or children under the age of 18 years held any rights to subscribe for equity or debt securities of the Company nor had there been any exercise of any such rights by any of them.

SHARE OPTION SCHEME

The Company adopted the Old Scheme on 24 May 2000 whereby the directors of the Company were authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board of directors and would not be less than the nominal value of the shares or 80.0% of the average of the closing prices of the shares on the Stock Exchange for the five business days immediately preceding the date on which an option is offered. The options are exercisable for a period of ten years commencing from the date on which an option is accepted.

No employee shall be granted an option, which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued to him under all options previously granted to him which have been exercised and issuable to him under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25.0% of the aggregate number of shares for the time being issued and issuable under the Old Scheme.

The maximum number of shares in respect of which options may be granted under the Old Scheme may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal 10.0% of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued pursuant to the Old Scheme.

At the extraordinary general meeting of the Company held on 7 January 2003, the shareholders of the Company approved the adoption of the New Scheme and the termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to share option schemes. All options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

The purpose of the New Scheme is for the Company to attract, retain and motivate participants to strive for the future development and expansion of the Group and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as may be approved from time to time.

Eligible participants of the New Scheme include any executive or non-executive directors of the Group or any employees (whether full-time or part-time) of the Group; any discretionary objects of a discretionary trust established by any employees, executive or non-executive directors of the Group; any consultants and professional advisers to the Group; any chief executives or substantial shareholders of the Company; any associates of director, chief executive or substantial shareholder of the Company; and any employees of substantial shareholders of the Company, as absolutely determined by the Board of Directors.

The New Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further options will be granted but in respect of all options which remain exercisable at the end of the period, the provisions of the New Scheme shall remain in full force and effect. The remaining life of the New Scheme as at 31 December 2008 was 4 years.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10.0% of the total number of Shares in issue as at the Adoption Date, which was 132,533,159 Shares. As at the date of this annual results, a total of 76,494,159 Shares (representing approximately 5.4% of the issued share capital of the Company as at the date of this annual results) are available for grant under the New Scheme. Together with the outstanding share options granted under the New Scheme of 14,602,000 Shares as at the date of this annual results, a total of 91,096,159 Shares (representing approximately 6.4% of the issued share capital of the Company as at the date of this annual results) are available for issue.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30.0% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Listing Rules).

The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period up to and including the Grant Date shall not exceed 1.0% of the total number of Shares in issue. Where any further grant of options to a participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant in the 12-month period up to and including the date of such further grant to be in aggregate over 1.0% of the Shares in issue, such further grant must be separately approved by the shareholders of the Company in a general meeting with such participant and his associates abstaining from voting.

The period under which an option may be exercised will be determined by the board of directors at its discretion, save that the period shall commence on the date of acceptance by the Grantee and expire not later than 10 years after the date of acceptance. The amount payable on acceptance of an option is HK\$1.00. The full amount of the Subscription Price shall be paid on exercise of an option.

The Subscription Price in respect of each Share issued pursuant to the exercise of options granted under the New Scheme shall be determined by the board of directors with a price at least the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day;
- (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Offer Date; and
- (c) the nominal value of a Share.

As of 31 December 2008, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2008 was HK\$11.92) granted at nominal consideration under the Old Scheme and the New Scheme, respectively. Each unit of option gives the holder the right to subscribe for one share.

Directors	No. of options outstanding at the beginning of the Year	No. of options outstanding at the end of the Year	Date granted	Period during which options exercisable	No. of options granted during the Year	No. of shares acquired in exercise of options during the Year	No. of options cancelled/ reclassified during the Year	Price per share to be paid on exercise of options	¹ Market value per share at date of grant of options during the Year	² Market value per share on exercise of options during the Year
Feng Xiaozeng (resigned on 7 November 2008)	2,350,000	-	2 November 2005	23 November 2005 to 22 November 2015	-	-	³ -2,350,000	HK\$2.875	-	-
Lin Fan	700,000	700,000	12 September 2002	12 September 2002 to 11 September 2012	-	-	-	HK\$3.225	-	-
	2,500,000	2,500,000	2 November 2005	23 November 2005 to 22 November 2015	-	-	-	HK\$2.875	-	-
Song Shuguang	800,000	800,000	2 November 2005	23 November 2005 to 22 November 2015	-	-	-	HK\$2.875	-	-
Xie Yiqun	500,000	500,000	2 November 2005	23 November 2005 to 22 November 2015	-	-	-	HK\$2.875	-	-
He Zhiguang (appointed on 12 March 2009)	-	800,000	26 February 2007	26 February 2007 to 25 February 2017	-	-	⁴ +800,000	HK\$9.490	-	-
Ng Yu Lam, Kenneth	1,300,000	-	28 September 2000	28 September 2000 to 27 September 2010	-	1,300,000	-	HK\$1.110	-	HK\$16.700
	500,000	-	12 February 2001	12 February 2001 to 11 February 2011	-	500,000	-	HK\$0.950	-	HK\$16.700
	400,000	400,000	12 September 2002	12 September 2002 to 11 September 2012	-	-	-	HK\$3.225	-	-
	1,000,000	1,000,000	2 November 2005	23 November 2005 to 22 November 2015	-	-	-	HK\$2.875	-	-
Shen Koping, Michael	1,500,000	-	12 September 2002	12 September 2002 to 11 September 2012	-	1,500,000	-	HK\$3.225	-	HK\$18.460
	156,000	-	7 January 2003	7 January 2003 to 6 January 2013	-	156,000	-	HK\$3.975	-	HK\$18.460
	350,000	-	5 January 2004	5 January 2004 to 4 January 2014	-	350,000	-	HK\$3.980	-	HK\$18.460
	350,000	-	31 December 2004	27 January 2005 to 26 January 2015	-	350,000	-	HK\$3.200	-	HK\$18.460
	600,000	-	2 November 2005	23 November 2005 to 22 November 2015	-	600,000	-	HK\$2.875	-	HK\$18.460
	350,000	-	30 December 2005	3 January 2006 to 2 January 2016	-	350,000	-	HK\$3.300	-	HK\$18.460
	175,000	-	30 June 2006	30 June 2006 to 29 June 2016	-	175,000	-	HK\$5.000	-	HK\$18.460
	175,000	175,000	29 December 2006	29 December 2006 to 28 December 2016	-	-	-	HK\$9.800	-	-
	175,000	175,000	29 June 2007	29 June 2007 to 28 June 2017	-	-	-	HK\$14.220	-	-
	175,000	175,000	31 December 2007	31 December 2007 to 30 December 2017	-	-	-	HK\$21.400	-	-
	-	175,000	30 June 2008	30 June 2008 to 29 June 2018	175,000	-	-	HK\$19.316	HK\$18.600	-
	-	175,000	31 December 2008	31 December 2008 to 30 December 2018	175,000	-	-	HK\$11.920	HK\$11.920	-
Lau Siu Mun, Sammy	750,000	150,000	27 September 2000	27 September 2000 to 26 September 2010	-	600,000	-	HK\$1.110	-	HK\$15.460
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011	-	-	-	HK\$0.950	-	-
	600,000	600,000	2 November 2005	23 November 2005 to 22 November 2015	-	-	-	HK\$2.875	-	-
Zheng Changyong (resigned on 12 March 2009)	800,000	-	2 November 2005	23 November 2005 to 22 November 2015	-	-	³ -800,000	HK\$2.875	-	-
Employees	300,000	-	25 September 2000 to 9 October 2000	25 September 2000 to 8 October 2010	-	300,000	-	HK\$1.110	-	HK\$18.987
	100,000	100,000	9 February 2001 to 17 February 2001	9 February 2001 to 16 February 2011	-	-	-	HK\$0.950	-	-
	100,000	100,000	12 September 2002 to 23 September 2002	12 September 2002 to 22 September 2012	-	-	-	HK\$3.225	-	-
	2,795,000	5,677,000	2 November 2005	23 November 2005 to 27 November 2015	-	268,000	³ +3,150,000	HK\$2.875	-	HK\$15.518
	800,000	-	26 February 2007	26 February 2007 to 25 February 2017	-	-	⁴ -800,000	HK\$9.490	-	-

Notes:

¹ Being the closing price quoted on the Stock Exchange immediately before the dates on which the options were granted during the Year.

² Being the weighted average closing price quoted on the Stock Exchange immediately before the dates on which the options were exercised during the Year.

- ³ *Mr. Feng Xiaozeng and Mr. Zheng Changyong resigned as a Director of the Company on 7 November 2008 and 12 March 2009, respectively. As they were still a director of the subsidiaries of the Group after their resignation, the share options that they were entitled to, but had not yet been exercised after their resignation, were reclassified and grouped under the employee category.*
- ⁴ *Mr. He Zhiguang had appointed as a Director of the Company on 12 March 2009. The share options that he was entitled to was reclassified from the employee category.*

The assumptions used in estimating the fair value of the Company's share options granted during the Year are provided in note 40(a)(v) to the annual results.

Share options were granted as part of a service condition. This service condition does not take into account the fair value measurement of the share options to be granted. There were no market conditions associated with the share options granted.

Apart from the foregoing, at no time during the Year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE AWARD SCHEME

- (A) The Share Award Scheme of the Company was adopted by the board of directors (the "Board") on 10 September 2007 ("Adoption Date"). Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing from the Adoption Date, and after such period no new award of Shares shall be granted. A summary of some of the principal terms of the Share Award Scheme is set out in section (B) below.
- (B) The purpose of the Share Award Scheme is to recognize and reward certain employees (including without limitation an employee who is also a director) of the Group and CIHC and its subsidiaries for their contributions to the Group and to give long-term incentives for retaining them for the continued operations and development of the Group. The Share Award Scheme intends to provide long-term compensation and incentives such that current employees are incentivized to remain in the Group and CIHC and its subsidiaries, and suitable professional recruits are attracted to join the Group and CIHC and its subsidiaries, to further assist in the development of the Group.

Under the Share Award Scheme, the Board or a committee (which consists of at least the chief executive officer and a director of the Company) delegated with the power of the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit select an employee for participation in the Share Award Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards of shares granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) to represent in aggregate over 10% of the issued share capital of the Company as at the date of such grant. No award shall be granted to any selected employee which would result in the maximum number of awarded shares which are the subject of the awards of shares granted to such selected employee (including any which have lapsed or have been forfeited) under the Share Award Scheme in the 12-month period up to and including the date of such grant to represent in aggregate over 1% of the issued share capital of the Company as at the date of such grant.

- (C) As at 31 December 2008, the net total number of shares acquired under Share Award Scheme is 4,720,000 shares (2007: 5,254,000 shares). As at 31 December 2008, 3,323,500 shares were awarded to selected employees (2007: 3,286,000 shares) subject to the terms of the Share Award Scheme, but have not yet vested in such selected employees.

Details of the Shares awarded to the Directors are set out below:

Name of Directors	Date of award (Note 1)	Number of awarded shares	Historical acquisition cost	Average fair value per share (Note 2)	Number of shares		Vesting date
					Lapsed during the Year	As at 31 December 2008	
He Zhiguang	31 December 2007	240,000	HK\$20.68	HK\$21.60	-	240,000	31 December 2010
Ng Yu Lam, Kenneth	16 November 2007	27,000	HK\$18.75	HK\$22.00	-	27,000	31 December 2009
	20 May 2008	55,000	HK\$18.01	HK\$22.40	-	55,000	31 December 2010
Shen Koping, Michael	16 November 2007	10,000	HK\$18.75	HK\$22.00	-	10,000	31 December 2009
	20 May 2008	12,000	HK\$18.75	HK\$22.40	-	12,000	31 December 2010
Lau Siu Mun, Sammy	16 November 2007	22,000	HK\$18.75	HK\$22.00	-	22,000	31 December 2009
	20 May 2008	45,000	HK\$18.01	HK\$22.40	-	45,000	31 December 2010
Li Tao	31 December 2007	130,000	HK\$20.68	HK\$21.60	-	130,000	31 December 2010

Notes:

- (1) The date of award refers to the date on which the selected employees agree to undertake to hold the awarded shares on the terms on which they are granted and agree to be bound by the rules of the Share Award Scheme.
- (2) The average fair value of the awarded shares is based on the closing price at the date of award and any directly attributable incremental costs.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of 31 December 2008, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under Section 336 of SFO were as follows:

Long Positions in Shares of the Company:

Substantial shareholders	Capacity	Number of ordinary shares (corporate interests)	Percentage of issued share capital
CIHC	Interest of controlled corporation	773,115,705 (Note 1)	54.38
CIHK	643,425,705 shares as beneficial owner and 129,690,000 shares (Note 2) as interest of controlled corporation	773,115,705	54.38
JP Morgan Chase & Co.	651,000 shares as beneficial owner, 8,272,000 shares as Investment manager and 105,247,660 shares as custodian corporation/ approved lending agent	114,170,660	8.03
ICBC	Interest of controlled corporation	97,464,887 (Note 3)	6.86
ICBC (Asia)	Beneficial owner	97,464,887	6.86

Notes:

- (1) CIHC's interest in the Company is held by CIHK, Golden Win Development Limited ("Golden Win"), Ming Lee Investment Limited ("Ming Lee"), Manhold Limited ("Manhold"), China Insurance Group Finance Company Limited ("CIGFCL"), Panbillion Finance Company Limited ("Panbillion") and China Insurance Group Investment Company Limited ("CIGICL"), all of which are wholly-owned subsidiaries of CIHC.
- (2) 71,544,000 shares are held by Golden Win, 18,672,000 shares are held by Ming Lee, 10,768,000 shares are held by Manhold, 13,144,000 shares are held by CIGFCL, 14,597,000 shares are held by Panbillion and 965,000 shares are held by CIGICL.
- (3) ICBC's interest in the Company is held by ICBC (Asia), a subsidiary of ICBC.

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the Shares and underlying Shares of the Company as at 31 December 2008.

DIRECTORS' INTEREST IN CONTRACTS

No contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party in which a director of the Company had a material interest subsisted at the end of the Year or at any time during the Year.

CONNECTED TRANSACTIONS

During the Year, the Group entered into the following connected transactions with CIHC and its subsidiaries ("CIHC Group").

Joint Bidding Agreement with TPI, CIHC and Ming An China

On 20 March 2008, TPL entered into a Joint Bidding Agreement with TPI, CIHC and The Ming An Insurance Company (China) Limited ("Ming An China") in relation to the purchase of a piece of land in Shenzhen and development of a commercial office building. The amount to be invested by TPL was agreed to be RMB289,000,000.

Capital Contribution to TPI

On 30 June 2008, CIIH entered into the conditional capital contribution agreement with CIHC, ICBC (Asia) and TPI pursuant to which CIHC and the Company agreed to contribute, in cash, in aggregate an amount of RMB270,000,000 as additional registered capital into TPI. Of the aggregate amount, RMB4,540,000 was to be contributed by CIHC and RMB265,460,000 was to be contributed by CIIH. ICBC (Asia) decided to not participate in the capital contribution. TPI is an associated company of the Company, in which CIIH holds a 40.025% equity interest prior to the capital contribution. Upon completion, each of CIHC, the Company and ICBC (Asia) was directly interested in 42.020%, 50.050% and 7.930%, respectively, of the equity interests in TPI. On 30 June 2008, CIHC, CIIH and ICBC (Asia) also entered into the conditional option deed pursuant to which CIHC agreed to grant the right to ICBC (Asia) at nil consideration to, conditional upon completion, acquire from CIHC the equity interest of approximately 1.647% in TPI as enlarged by the capital contribution for a consideration of RMB25,858,900 within six months from the date of the option deed, or such later date as the parties may extend pursuant to the terms of the option deed. The option will be exercisable at the option of ICBC (Asia), and if exercised by ICBC (Asia), will have to be exercised in full. The Company has waived its right to purchase the option interest if the option is exercised by ICBC (Asia). The capital contribution agreement and the option deed were approved by the Independent Shareholders of CIIH at an extraordinary general meeting of the Company held on 15 July 2008.

Supplemental Agreement with CIHC and Ming An China

On 5 November 2008, TPI and TPL entered into a supplemental agreement in relation to the purchase of land and the development of the property in Shenzhen with CIHC and Ming An China to amend the total investment amount from the parties as set out in the joint bidding agreement dated 20 March 2008. According to the joint bidding agreement, the percentages of the total investment amount for the transaction required from each of TPI, CIHC, TPL and Ming An China were 15%, 55%, 15% and 15%, respectively. Under the supplemental agreement, the percentages of the total investment amount for the transaction required from each of TPI, CIHC, TPL and Ming An China was amended to be 15%, 5%, 65% and 15%, respectively. TPI and TPL are expected to invest a total of approximately RMB289,000,000 and RMB1,251,000,000, respectively, for the transaction under the supplemental agreement. The purchase of the land was completed in April 2008 and the construction of the property is expected to commence in early 2009 and will last for a period of three years with a tentative completion date set to be in the second half of 2011. The joint bidding agreement and supplemental agreement were approved by the independent shareholders of CIHC at an extraordinary general meeting of the Company held on 9 December 2008.

CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group entered into the Continuing Connected Transactions Agreements with CIHC and its subsidiaries (“CIHC Group”). Details of these connected transactions are set out in the following paragraphs A to D.

A. Reinsurance Transaction

On 11 January 2006, CIRE and CIHC entered into the Reinsurance Agreement pursuant to which CIRE agrees, and CIHC agrees to procure its subsidiaries, to enter into various reinsurance contracts with members of the CIHC Group. Pursuant to the said reinsurance contracts, CIRE acts as reinsurer and accepts risks in return for agreed premium from such members of the CIHC Group. The Reinsurance Transactions consist of both treaty and facultative businesses and the range of risks covered includes all lines of general reinsurance risks and certain classes of long term reinsurance risks on both a proportional and non-proportional basis. The Reinsurance Agreement is conditional upon the obtaining of Independent Shareholders’ Approval and shall be valid for a term of three years from 1 January 2006 to 31 December 2008. Pursuant to the Reinsurance Agreement, CIRE will enter into reinsurance contracts on the same basis as it accepts reinsurance business from other independent customers, and the terms and conditions of such reinsurance contracts, in which other independent third party reinsurers may also participate, will be negotiated on an arm’s length basis and will be entered into on normal commercial terms.

It is expected that the amount of gross premium income ceded by CIHC Group and underwritten by CIRE and the commission expenses payable by the Group in respect of the Reinsurance Transactions for each of the financial year ended 31 December from 2006 to 2008 will not exceed HK\$504.00 million and HK\$154.37 million, respectively.

The proposed cap of the amount of gross premium income and commission expenses described above are determined by reference to the historical value of such transactions and the projected value on new business that are likely to be procured.

The Reinsurance Agreement and the proposed cap were approved by the independent shareholders of the Company by way of poll at the Company's extraordinary general meeting on 23 February 2006.

During the Year, the gross premiums written and the commission expenses paid in respect of business ceded by related companies was HK\$266.04 million (2007: HK\$241.54 million) and HK\$86.18 million (2007: HK\$72.95 million) respectively.

B. Retrocession Transaction

On 11 January 2006, CIRE and CIHC entered into the Retrocession Agreement pursuant to which CIRE agrees, and CIHC agrees to procure its subsidiaries, to enter into retrocessional reinsurance contracts. Pursuant to the retrocessional reinsurance contracts, CIRE retrocedes inward premium to the CIHC Group on both a proportional and non-proportional basis and CIRE receives commission income from the CIHC Group.

Retrocession is the transfer by a reinsurer of inward reinsurance risks accepted by it to another insurance or reinsurance company. A reinsurer may enter into retrocession agreements with a number of insurers and reinsurers, whereby such other insurers and reinsurers agree to accept given proportions of risk. The reinsurer would consider the extent of the risk it wishes to retain, and retrocede the surplus to other insurers and reinsurers under a retrocession treaty. The retrocession arrangements may be arranged on a single original risk, or for a portfolio of inward reinsurance risks, and may be arranged in a proportional or non-proportional manner.

The Retrocession Agreement is valid for a term of three years from 1 January 2006 to 31 December 2008. Pursuant to the Retrocession Agreement, the Retrocession Transactions will be effected on terms and conditions that are comparable to those offered by the Group to and accepted by independent third parties, and will be on normal commercial terms and on an arm's length basis and in accordance with the Group's risk management policy.

It is expected that the gross premium income to be retroceded to CIHC Group and the commission income to be received by the Group in respect of the Retrocession Transactions for each of the financial years ended 31 December 2006 to 2008 will not exceed HK\$47.25 million and HK\$17.96 million, respectively.

The proposed cap of the gross premium income and commission income described above are determined by reference to the historical value of such transactions and the projected values on new business that are likely to be procured.

During the Year, the outward retroceded premiums and the commission income received in respect of business retroceded to related companies was HK\$2.78 million (2007: HK\$2.68 million) and HK\$433,000 (2007: HK\$269,000), respectively.

C. Investment Management Services

On 11 January 2006, CIGAML, the wholly-owned subsidiary of the Company, and CIHC entered into the Master Investment Management Agreement pursuant to which CIGAML agrees, and CIHC agrees to procure its subsidiaries, to enter into various investment management agreements with the CIHC Group. In accordance with the investment management agreements, CIGAML provides investment advice and investment management services to the relevant members of the CIHC Group in managing the Trust Fund.

The Master Investment Management Agreement shall be valid for a term of three years from 1 January 2006 to 31 December 2008. Under the Master Investment Management Agreement, CIGAML will receive from the CIHC Group management fees, performance bonus fees and other fees for its investment management services per annum for each investment management agreement (together, the “Management Fees”) and such Management Fees will be calculated on the basis of (a) a certain percentage of the net asset value of the Trust Fund; and/or (b) a performance bonus fee representing a certain percentage of the amount of net investment return at the end of the relevant calendar year in excess of an amount equivalent to a certain percentage of the daily average balance of the settlor’s subscription monies or the increase in the next asset value of the relevant Trust Fund managed by CIGAML; and/or (c) such other bases as may be agreed to by the parties to the investment management agreement.

It is expected that the Management Fees to be received by the Group for each of the financial years ending 31 December from the financial years ended 31 December 2006 to 2008 will not exceed HK\$4.80 million. The proposed cap is determined by reference to the historical values of such transactions and the projected values on new business to be procured.

During the Year, the Management Fees to be received by the Group was HK\$7.89 million (2007: HK\$17.84 million). The actual amount received is more than the proposed cap of HK\$4.80 million for the relevant transaction by an amount of HK\$3.09 million. In respect of the amount of the Management Fees to be received by the Group during the Year, since each of the applicable percentage ratios calculated pursuant to the Listing Rules is on an annual basis less than 0.1%, pursuant to Listing Rule 14A.33, this transaction is exempt from reporting, announcement and shareholders’ approval requirements set out in Chapter 14A of the Listing Rules.

D. Provision of Training Services

On 11 January 2006, the Company and CIHC entered into the Training Services Agreement pursuant to which the training department of the CIHC Group will provide training services to directors, employees, agents and sales representatives of members of the Group. Such training services include the provision of training to staff, training materials and information and the organization of training-related seminars and activities on basic insurance knowledge, risk management, presentation skills, and other-job-related skills training.

The Training Services Agreement shall be valid for a period of three years from 1 January 2006 to 31 December 2008 and the Group will pay training fees to CIHC in respect of the training services provided (“Training Fees”). Pursuant to the Training Services Agreement, at the commencement of each financial year, CIHC will notify the Group of the projected amount of Training Fees payable by the Group by reference to the planned training activities to be conducted in that financial year and the proportion to be shared by the Group. Prior to 31 March of each financial year, the Group shall pay to CIHC the Training Fees in advance (the “Advance Payment”). At the end of the relevant financial year, if the Advance Payment is insufficient to cover the actual Training Fees incurred during that financial year, the Group will top up the shortfall within 90 days from the end of the respective financial year. On the other hand, if the Advance Payment is more than the actual Training Fees incurred, the surplus will, at the discretion of CIHC, be refunded to the Company or be brought forward to the next financial year as part of the Advance Payment for the next financial year. The Training Fees to be charged by the CIHC Group will be based on the number of persons within the Group who have received the training services as a proportion to the total number of persons to which training services have been provided and/or other reasonable bases as may be determined by the Company and CIHC.

It is expected that the Training Fees to be paid by the Group pursuant to the Training Services Agreement for each of the financial year ending 31 December 2006 to 2008 will not exceed HK\$5.08 million. The proposed cap is determined by reference to the historical values of such transactions and the projected increase of the number of directors, employees, agents and sales representatives of the members of the Group who will receive the training services.

During the Year, the fees paid to the CIHC Group in respect of the training services was HK\$4.95 million (2007: HK\$4.78 million).

The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions in paragraphs A to D above were conducted in following manner:

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) entered into on normal commercial terms or on terms no less favourable than terms available to or from independent third parties
- (iii) entered into in accordance with the terms of the relevant agreements governing such transactions and on terms that are fair and reasonable so far as the shareholders of the Company as a whole are concerned.

In accordance with rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the HKICPA. The auditors have reported their factual findings to the Board concerning the matters stated in rule 14A.38.

Based on the work performed, the external auditors of the Company have reported that the aforesaid continuing connected transactions (a) have been approved by the Board of the Company; (b) are in accordance with the pricing policies if the transactions involve provision of goods or services; (c) have been entered into in accordance with the terms of the relevant agreements governing the transactions, and (d) have not exceeded the caps disclosed in the announcement dated 11 January 2006, except for the asset management fee.

In respect of the amount of the Management Fees to be received by the Group during the Year, since each of the applicable percentage ratios calculated pursuant to the Listing Rules is on an annual basis less than 0.1%, pursuant to Listing Rule 14A.33, this transaction is exempt from the reporting, announcement and shareholders’ approval requirements set out in Chapter 14A of the Listing Rules.

INTEREST BEARING NOTES

Particulars of the interest bearing notes of the Company and the Group as at 31 December 2008 are set out in note 32 to the annual results.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out at the end of the financial statements.

RETIREMENT SCHEMES

Particulars of the retirement schemes are set out in note 39 to the annual results.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices during the Year under review is set out in the "Corporate Governance Report" of the Company's 2008 annual results.

AUDIT COMMITTEE

Further information on the composition of the Audit Committee and the work performed by the Audit Committee during the Year under review is set out in the Company's 2008 annual results under the section headed "Audit Committee" in the Corporate Governance Report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this results, there is sufficient public float, as not less than 25.0% of the Company's issued shares are held by the public.

AUDITORS

During the Year, Messrs. KPMG, who acted as auditor of the Company for the past seven years, resigned and Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditor, Messrs. Deloitte Touche Tohmatsu.

CORPORATE GOVERNANCE REPORT

Corporate governance practices

The Company is committed to the establishment of good standards of corporate governance practices by emphasising transparency, accountability and responsibility to our shareholders. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders, to comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance practices.

During the Year under review, the Company has applied the principles and complied with the Code Provisions set out in the “Code on Corporate Governance Practices” contained in Appendix 14 of the Listing Rules which came into effect on 1 January 2005 (the “Code”), with the following exceptions:

The non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company’s Annual General Meeting in accordance with the Company’s Articles of Association.

Directors’ securities transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the Year under review.

Board of directors

The Board is collectively responsible for overseeing the management of the business and affairs of the Group. The Board currently is comprised of a total of eleven directors, with seven executive directors, one non-executive director and three independent non-executive directors.

The names of the directors are set out in the Company’s 2008 annual results under the section headed “Corporate Information”.

During the period from 1 January 2008 to the date of this annual results, the Board held five meetings, the particulars of which are as follows:

Date of meeting	Attendees
8 January 2008	Mr. Feng Xiaozeng, Mr. Lin Fan, Mr. Song Shuguang, Mr. Xie Yiqun, Mr. Ng Yu Lam, Kenneth, Mr. Shen Koping, Michael, Mr. Lau Siu Mun, Sammy, Mr. Zheng Changyong and Mr. Che Shujian.
18 March 2008	Mr. Feng Xiaozeng, Mr. Lin Fan, Mr. Song Shuguang, Mr. Xie Yiqun, Mr. Ng Yu Lam, Kenneth, Mr. Shen Koping, Michael, Mr. Lau Siu Mun, Sammy and Mr. Lau Wai Kit.
29 August 2008	Mr. Feng Xiaozeng, Mr. Lin Fan, Mr. Song Shuguang, Mr. Xie Yiqun, Mr. Ng Yu Lam, Kenneth, Mr. Shen Koping, Michael, Mr. Lau Siu Mun, Sammy, Mr. Zheng Changyong, Dr. Wu Jiesi, Mr. Che Shujian and Mr. Lau Wai Kit.

14 November 2008 Mr. Lin Fan, Mr. Song Shuguang, Mr. Xie Yiqun, Mr. Ng Yu Lam, Kenneth, Mr. Shen Koping, Michael, Mr. Lau Siu Mun, Sammy, Mr. Zheng Changyong and Dr. Wu Jiesi.

18 March 2009 Mr. Lin Fan, Mr. Song Shuguang, Mr. Xie Yiqun, Mr. He Zhiguang, Mr. Ng Yu Lam, Kenneth, Mr. Shen Koping Michael, Mr. Lau Siu Mun Sammy, Mr. Li Tao and Dr. Wu Jiesi.

The Board formulates the overall strategy of the Group, monitors its financial performance and maintains effective supervision over the management. Daily operations and administration are delegated to the management. During the Year under review, none of the directors above has or maintained any financial, business, family or other material/relevant relationships with any of the other directors.

The non-executive director and the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

Chairman and Chief Executive Officer

The chairman and chief executive officer are Mr. Lin Fan and Mr. Ng Yu Lam, Kenneth. Their roles are clearly defined and segregated and are not exercised by the same individual.

Nomination of director

The Company has not established a nomination committee. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors and assessing the independence of the independent non-executive directors to ensure that the Board has a balance of expertise, skills and experience. The Board had appointed Mr. He Zhiguang as an executive director and Mr. Li Tao as a non-executive director of the Company by means of written resolutions passed on 12 March 2009.

Remuneration committee

A Remuneration Committee with specific written terms of reference was established by the Company on 24 February 2005.

The principal duties of the Remuneration Committee include the making of recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management; the establishment of a formal and transparent procedure for developing the policy on such remuneration and to determine the specific remuneration packages of all executive directors and senior management.

The main principles of the Group's remuneration policies are:

- (a) Remuneration should be determined by taking into consideration factors such as salaries paid by comparable companies, time commitment, responsibility, employment conditions elsewhere in the Group and the desirability of performance-based remuneration;
- (b) Performance-based remuneration should be reviewed and approved by reference to the corporate goals and objectives approved by the Board from time to time; and
- (c) No director should be involved in deciding his or her own remuneration.

Mr. Lin Fan has been appointed as a chairman and a member of the Remuneration Committee to fill the casual vacancy following the resignation of Mr. Feng Xiaozeng on 7 November 2008.

The Remuneration Committee is currently comprised of the three independent non-executive directors, namely Dr. Wu Jiesi, Mr. Che Shujian and Mr. Lau Wai Kit, the chairman, Mr. Lin Fan, and the chief executive officer, Mr. Ng Yu Lam, Kenneth.

During the period from 1 January 2008 to the date of this annual results, the Remuneration Committee approved the payment of the directors' bonuses for the year 2007, the granting of share options, discretionary bonuses and share awards to the directors of the Group by means of written resolutions passed on ten occasions.

Auditors' remuneration

KPMG were auditors of the Company up to 21 November 2008 and since that date, Deloitte Touche Tohmatsu have held the office of auditors of the Company. The services provided by them include audit and taxation. During the 2008 financial year, the fees for the Group's statutory audit and taxation services payable to the external auditors of the Group were HK\$3,409,000 and HK\$168,000, respectively.

Audit committee

The Board has adopted the new written terms of reference for the Audit Committee, which are in accordance with the Code. The Audit Committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control system and the interim and annual results of the Group.

The Audit Committee has recommended the Board to appoint Deloitte Touche Tohmatsu as auditors of the Company to fill the casual vacancy following the resignation of KPMG on 21 November 2008.

Mr. Li Tao has been appointed as a non-executive director and member of the Audit Committee to fill the casual vacancy following the resignation of Mr. Zheng Changyong on 12 March 2009.

The Audit Committee is comprised of the three independent non-executive directors, namely Dr. Wu Jiesi, Mr. Che Shujian and Mr. Lau Wai Kit, and a non-executive director, Mr. Li Tao. Dr. Wu Jiesi is the chairman of the Audit Committee.

The interim results, annual results and the system of internal controls of the Company and its subsidiaries for the 2008 financial year have been reviewed by the Audit Committee.

During the period from 1 January 2008 to the date of this annual results, the Audit Committee held three meetings, the particulars of which are as follows:

Date of meeting	Attendees
13 March 2008	Dr. Wu Jiesi, Mr. Lau Wai Kit and Mr. Zheng Changyong
26 August 2008	Dr. Wu Jiesi, Mr. Che Shujian, Mr. Lau Wai Kit and Mr. Zheng Changyong
13 March 2009	Dr. Wu Jeisi, Mr. Che Shujian, Mr. Lau Wai Kit and Mr. Li Tao

Directors' responsibility for preparing the financial statements

The directors acknowledge that it is their responsibility for preparing financial statements which give a true and fair view.

The statement of the auditors of the Company about their responsibilities on the financial statements is set out in the Independent Auditor's Report.

Internal control review

The Board has conducted a review of the system of internal controls of the Group in accordance with the Code. The Board considers that all material internal controls of the Group are proper and effective.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 7 May 2009 to Tuesday, 12 May 2009 inclusive during which period no shares transfers of the Company can be registered. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 May 2009.

DEFINITIONS

In the annual results, the following expressions shall have the following meanings unless the context requires otherwise:

“BVI”	British Virgin Islands
“CIGAML”	China Insurance Group Assets Management Limited
“CIHC”	China Insurance (Holdings) Company, Limited
“CIHK”	China Insurance H.K. (Holdings) Company Limited
“CIRC”	China Insurance Regulatory Commission
“CIRe”	China International Reinsurance Company Limited
“Directors”	The directors of the Company, including the independent non-executive directors
“Fortis”	Fortis International N.V.
“Grantee”	A person who has been granted the right to accept the Company’s offer of share options
“HKAS”	Hong Kong Accounting Standard
“HKFRS”	Hong Kong Financial Reporting Standard
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HK(IFRIC)-Int”	Hong Kong (International Financial Reporting Interpretations Committee)-Interpretation
“ICBC”	The Industrial and Commercial Bank of China
“ICBC (Asia)”	Industrial and Commercial Bank of China (Asia) Limited
“Independent shareholders”	Shareholder(s) other than CIHC, ICBC (Asia) and their respective associates
“Last Year”	The year ended 31 December 2007
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“MPF scheme”	Mandatory Provident Fund Scheme
“PRC GAAP”	Accounting principles generally accepted in the PRC
“SFO”	Securities and Futures Ordinance
“Share(s)”	Share(s) of HK\$0.05 each in the capital of the Company

“Share Award Scheme”	CIIH Employees’ Share Award Scheme adopted on 10 September 2007
“SINO-RE”	SINO-RE Reinsurance Brokers Limited
“the Stock Exchange”	The Stock Exchange of Hong Kong Limited
“the Company” or “CIIH”	China Insurance International Holdings Company Limited
“the Group”	CIIH and its subsidiaries
“the PRC”	The People’s Republic of China
“the Year”	The year ended 31 December 2008
“TPAM”	Tai Ping Asset Management Company Limited
“TPI”	The Tai Ping Insurance Company, Limited
“TPL”	Tai Ping Life Insurance Company, Limited
“TPP”	Tai Ping Pension Company Limited
“the Old Scheme”	Share option scheme of the Company adopted on 24 May 2000 and terminated on 7 January 2003
“the New Scheme”	Share option scheme of the Company adopted on 7 January 2003
“RMB”	Renminbi
“HKD”	Hong Kong dollars
“USD”	United States dollars
“EUR”	Euro
“GBP”	British Pound

By Order of the Board
LIN Fan
Chairman

Hong Kong, 18 March 2009

As at the date of this announcement, the Board is comprised of 11 directors, of which Mr. LIN Fan, Mr. SONG Shuguang, Mr. XIE Yiqun, Mr. HE Zhiguang, Mr. NG Yu Lam Kenneth, Mr. SHEN Koping Michael and Mr. LAU Siu Mun Sammy are executive directors of the Company, Mr. LI Tao is a non-executive director of the Company and Dr. WU Jiesi, Mr. CHE Shujian and Mr. LAU Wai Kit are independent non-executive directors of the Company.

This announcement is posted on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and on the website of the Company at www.ciih.com.