

# CHINA INSURANCE INTERNATIONAL HOLDINGS COMPANY LIMITED

# 2008 INTERIM RESULTS

29 August 2008

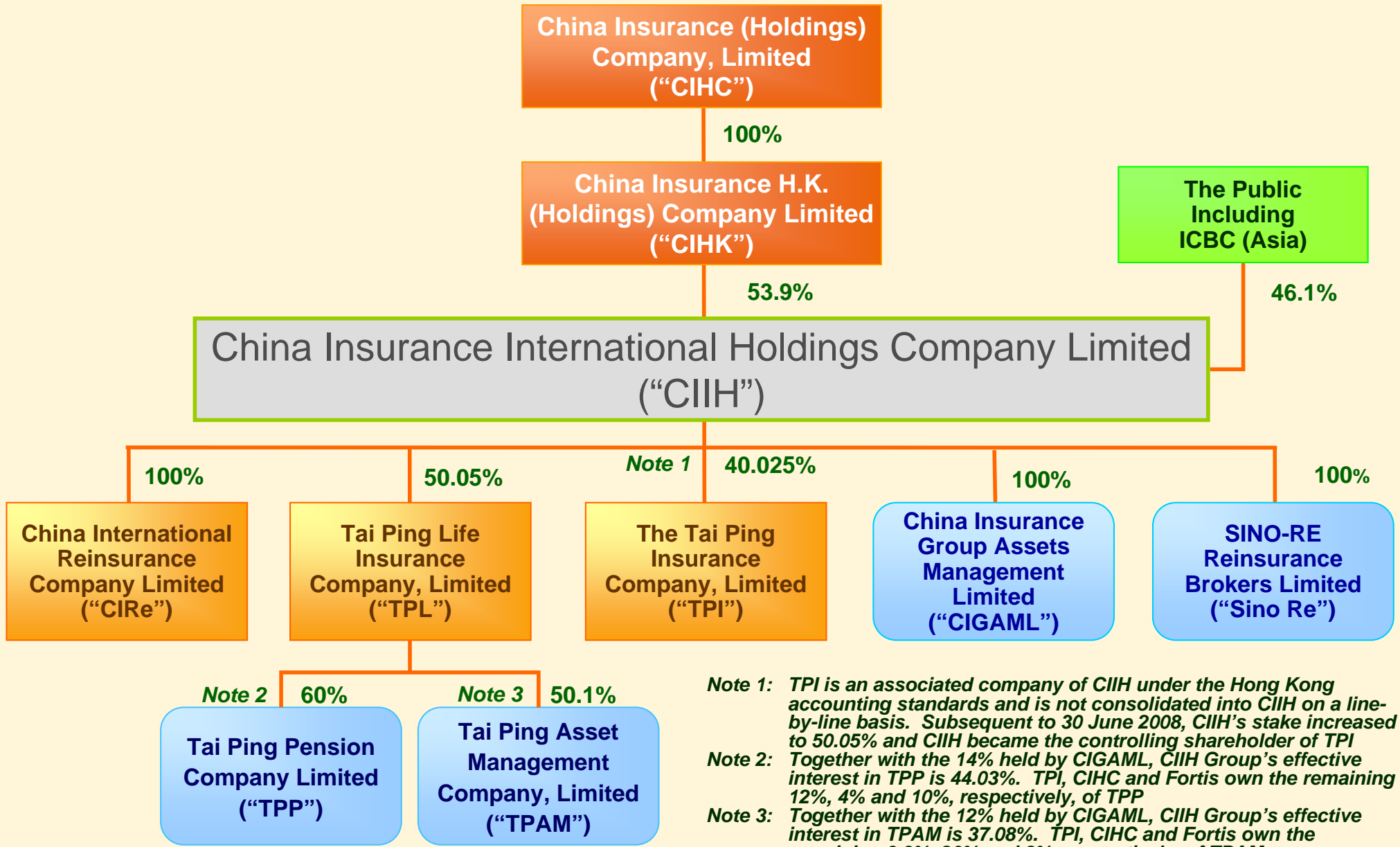
# Forward-Looking Statements

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**This presentation and subsequent discussions may contain certain forward-looking statements with respect to the financial condition, results of operations and businesses of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Additional detailed information concerning important factors that could cause actual results to differ materially is available in our Interim Report.**

# CIIH Corporate Structure

Updated as of 30 June, 2008



**Note 1:** TPI is an associated company of CIIH under the Hong Kong accounting standards and is not consolidated into CIIH on a line-by-line basis. Subsequent to 30 June 2008, CIIH's stake increased to 50.05% and CIIH became the controlling shareholder of TPI

**Note 2:** Together with the 14% held by CIGAML, CIIH Group's effective interest in TPP is 44.03%. TPI, CIHC and Fortis own the remaining 12%, 4% and 10%, respectively, of TPP

**Note 3:** Together with the 12% held by CIGAML, CIIH Group's effective interest in TPAM is 37.08%. TPI, CIHC and Fortis own the remaining 9.9%, 20% and 8%, respectively, of TPAM

# Chairman's Remark

- ◆ **Gross premiums written and policy fees increased significantly by 59.9% to HK\$13,299.68 million**
- ◆ **Net profit attributable to shareholders was HK\$381.34 million, representing a decrease of 22.0%, due to lower investment gains caused by equity markets downturns globally, in Hong Kong and the PRC**
- ◆ **Reinsurance operations has maintained market position and underwriting profitability despite softening of global reinsurance fundamentals and a rising number of catastrophe events**
- ◆ **Life insurance operations have continued to successfully achieve their operating benchmarks and to make significant inroads in developing a nationwide platform**

# Group – Financial Highlights

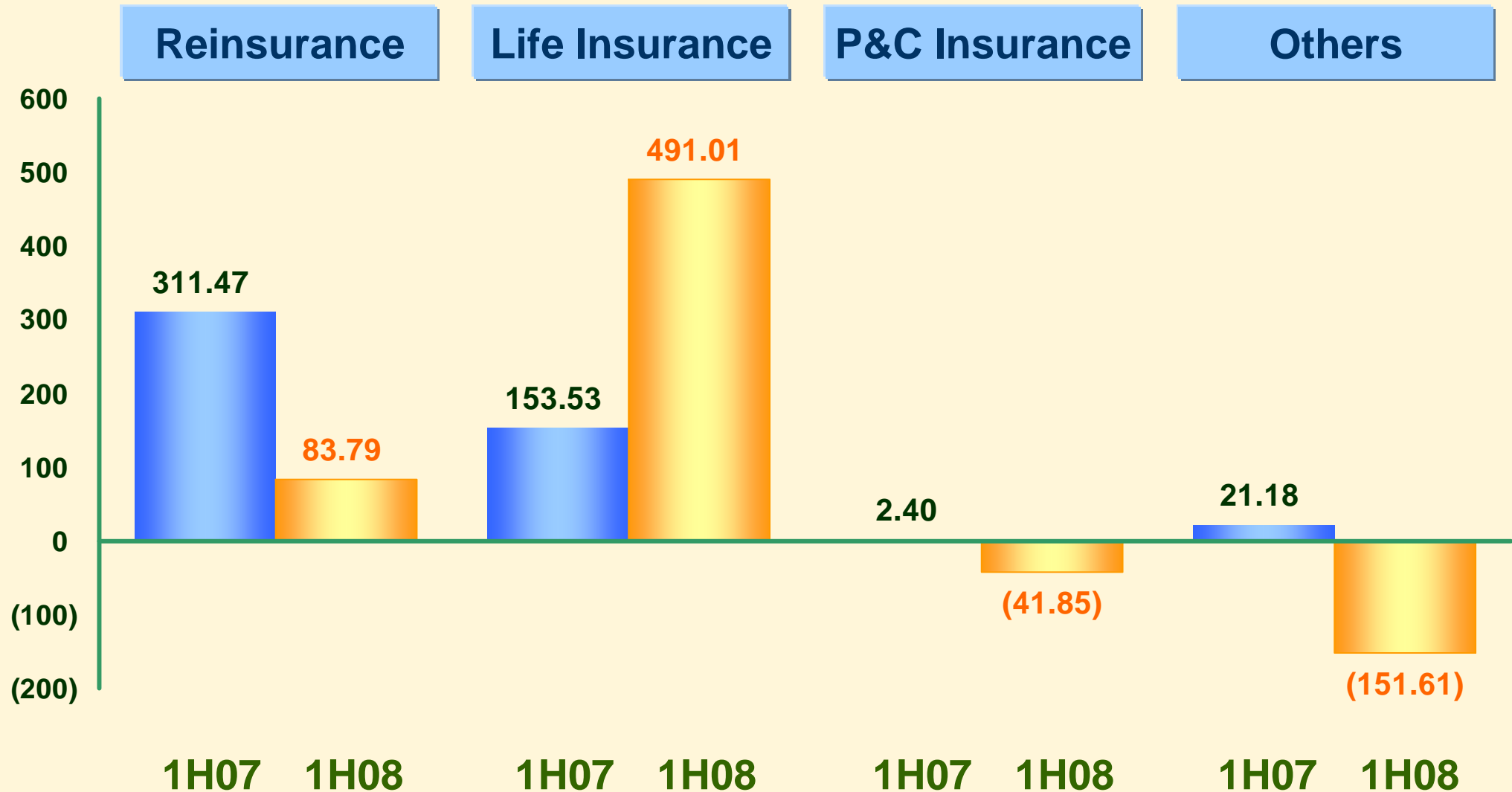
HK\$ million	1H08	1H07	Change
Gross premiums written and policy fees	13,299.68	8,317.65	59.9%
Total investment income excluding unit-linked products income	1,966.80	2,413.93	(18.5%)
Net exchange loss	(43.66)	(4.37)	10.0 times
Profit before taxation	635.90	782.94	(18.8%)
Profit after taxation	775.25	634.92	22.1%
Net Profit attributable to the equity holders	381.34	488.58	(22.0%)
Basic earnings per share (HK cent)	27.0	34.7	(7.7 cents)

# Group – Investment Income Highlights

HK\$ million	1H08	1H07	Change
Net investment income	2,050.73	975.06	2.1 times
Net realised investment gains	926.04	1,176.40	(21.3%)
Net unrealised investment (losses)/gains	(2,657.78)	316.66	-
Impairment on AFS equities	(108.10)	-	-
<b>Total investment income</b>	<b>210.89</b>	<b>2,468.12</b>	<b>(91.5%)</b>
Less: Investment (losses)/gains attributable to unit-linked products	(1,755.91)	54.19	-
<b>Total investment income excluding unit-linked products income</b>	<b>1,966.80</b>	<b>2,413.93</b>	<b>(18.5%)</b>

# Net Profit by Business Segment

HK\$ million



# Group Financial Highlights

## Reinsurance

- ◆ **CIRe experienced a slight increase in underwriting profit during the Period**
- ◆ **Strong and effective retrocession protections have allowed CIRe to lessen its net retained claims of the snowstorm in Southern China and the tragic earthquake in Sichuan Province**
- ◆ **Despite a global softening of pricing conditions, CIRe has increased its market position in China, while maintaining its existing leading positions in Hong Kong/Macau and the rest of Asia**
- ◆ **During the Period, CIRe experienced equity market losses in its investment portfolio, particularly from its equity securities traded in Hong Kong**

# Group Financial Highlights

## Life Insurance

- ◆ TPL generated strong premium sales across its bancassurance and individual business lines
- ◆ During the Period, TPL experienced equity market losses in its investment portfolio traded in the PRC; however, optimal risk management and a lower allocation to equity investments have allowed TPL to generate satisfactory investment income
- ◆ TPL continued its expansion during the Period, completing the opening of three new branches in Xinjiang, Guizhou and Gansu, in addition to 111 new sub-branches and marketing centres throughout the country

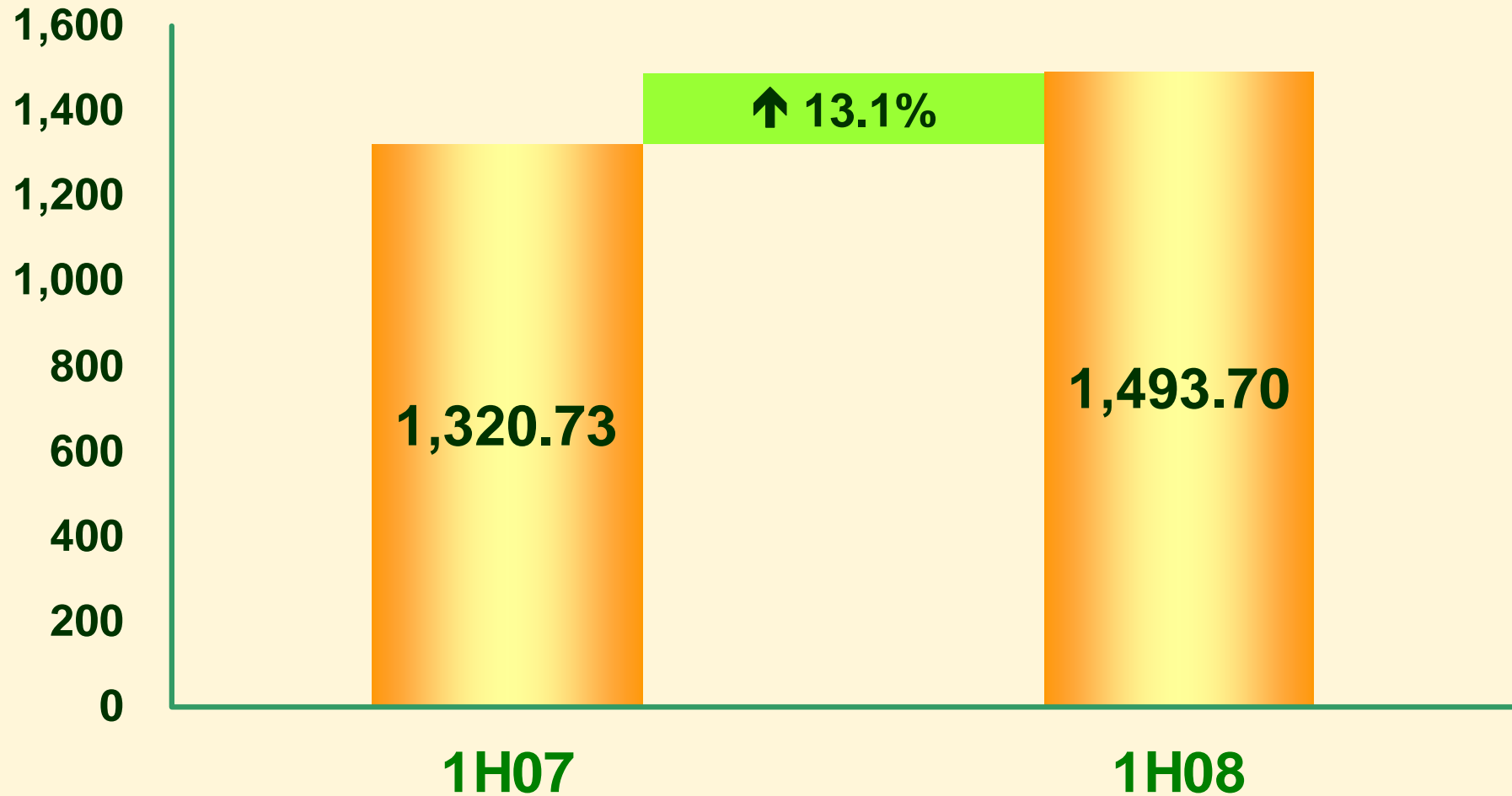
## Property and Casualty

- ◆ TPI's loss was due to its rapid expansion of premium income and network, as well as its continued lack of economies of scale
- ◆ TPI's results were also negatively affected by the snowstorm in Southern China and the earthquake in Sichuan Province, as well as equity losses in its investment portfolio from equity securities traded on the A-share markets

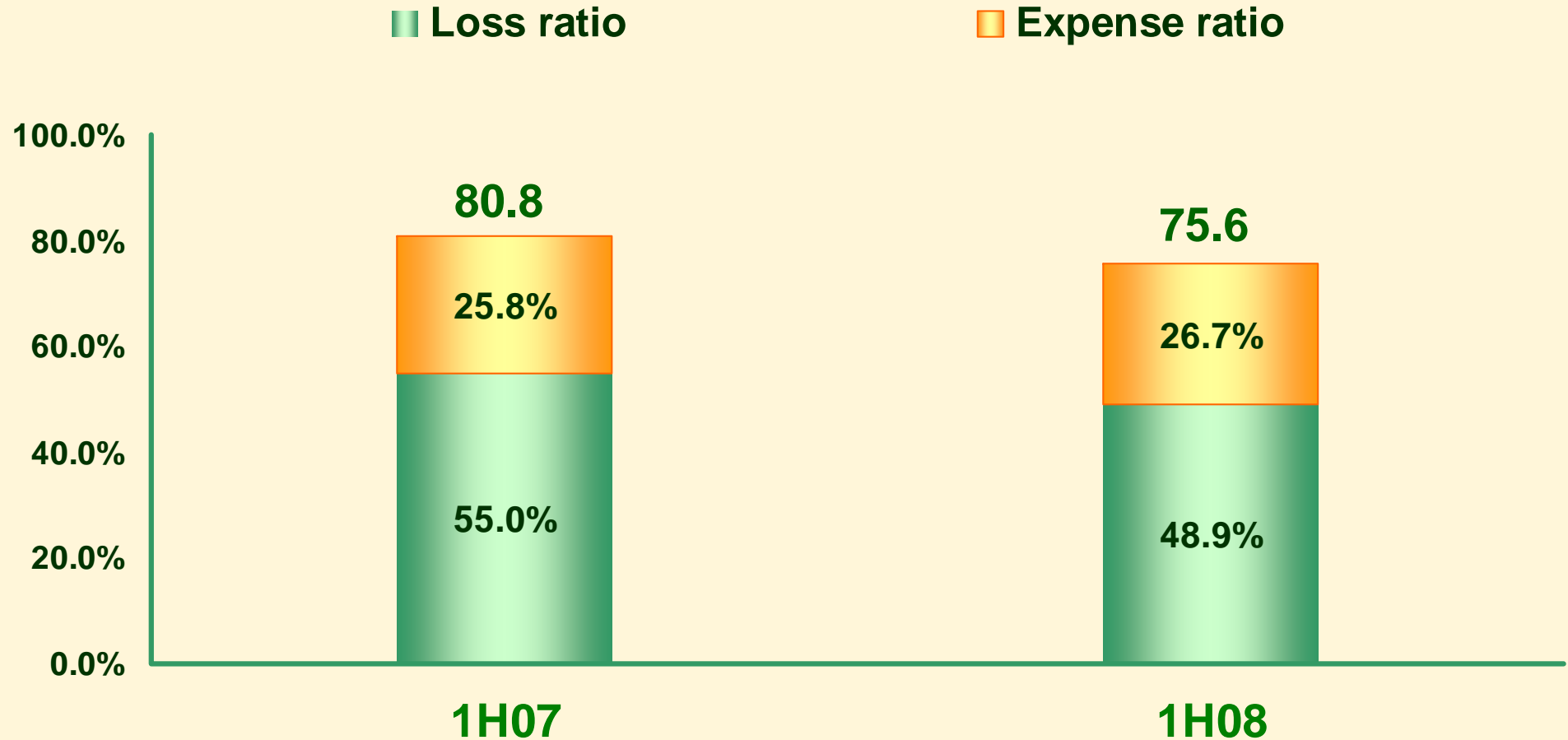
# Reinsurance Business – CIRe Review

# Reinsurance – Premium Growth

HK\$ million



# Reinsurance – Combined Ratio



- 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 under net premiums written is a fairer indicator and better reflects the underwriting performance of CIRe. If the net earned premium basis is applied, then the expense ratio would be 45.4% for the Period (2007: 40.6%)*
- 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 94.3 for the Period (2007: 95.6)*

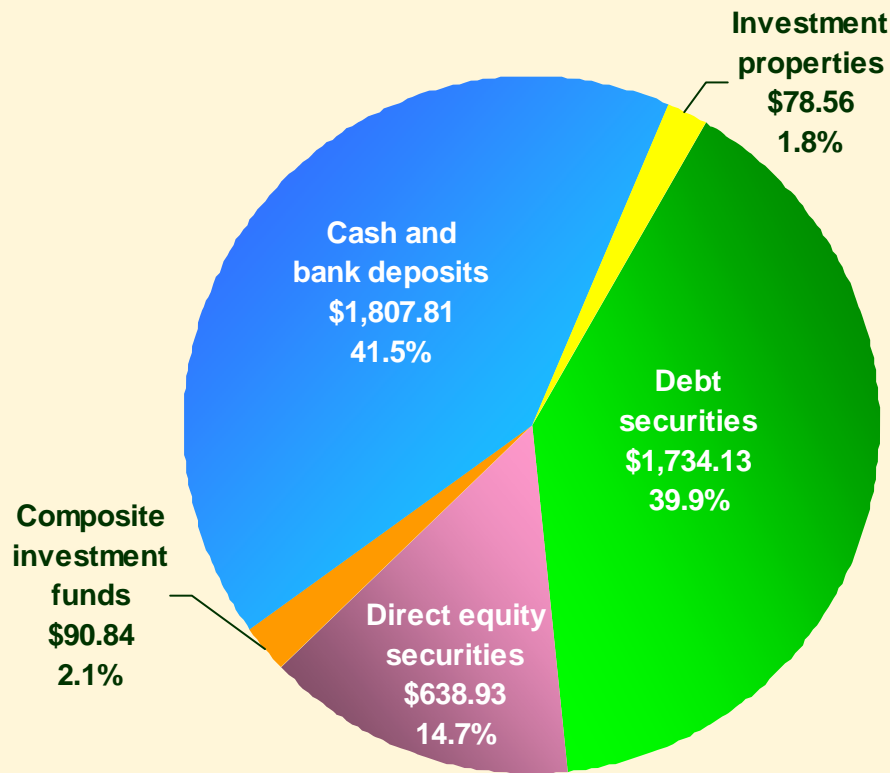
# Reinsurance – Investment Income and Yield

HK\$ million	1H08	1H07	Change
<b><u>Income recognised in Income Statement</u></b>			
Net investment income	91.52	91.24	0.3%
Net realised investment (losses)/gains	(37.50)	174.49	-
Net unrealised investment (losses)/gains	(21.15)	5.36	-
Impairment on AFS equities	(13.00)	-	-
<b>Total investment income</b>	<b>19.87</b>	<b>271.09</b>	<b>(92.7%)</b>
<b>Total investment yield (year-to-date)</b>	<b>0.4%</b>	<b>6.9%</b>	<b>(6.5 pts)</b>
<b>Net unrealised investment (losses)/gains recognised in Fair Value Reserve</b>	<b>(146.09)</b>	<b>55.36</b>	<b>-</b>

# Reinsurance – Investment Composition

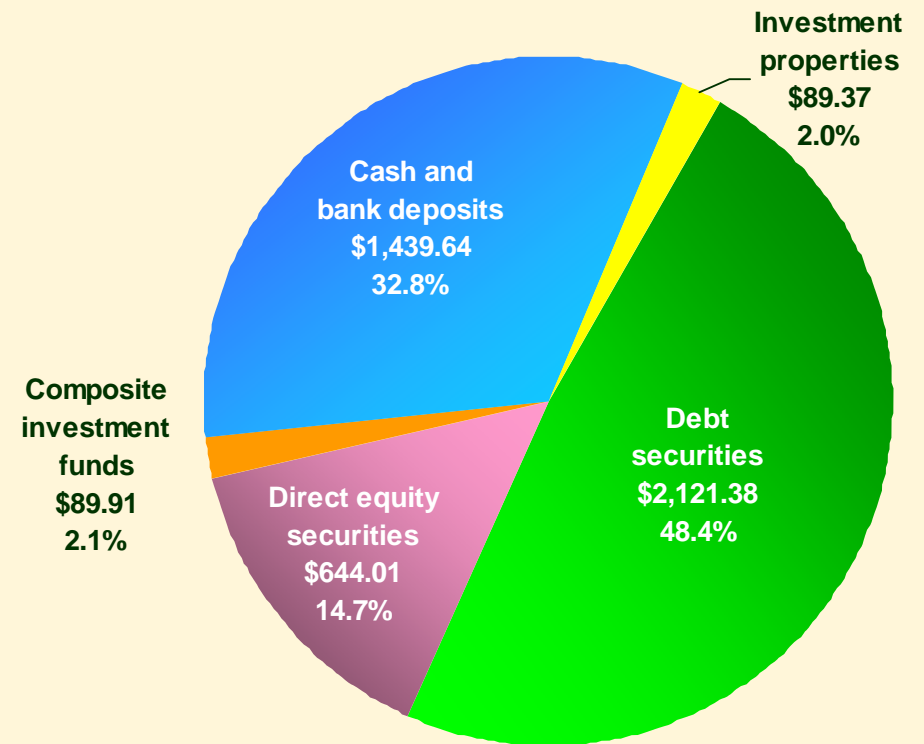
**At 31 Dec 07**

**Total Invested Assets:  
HK\$4,350.27 million**



**At 30 Jun 08**

**Total Invested Assets:  
HK\$4,384.31 million**



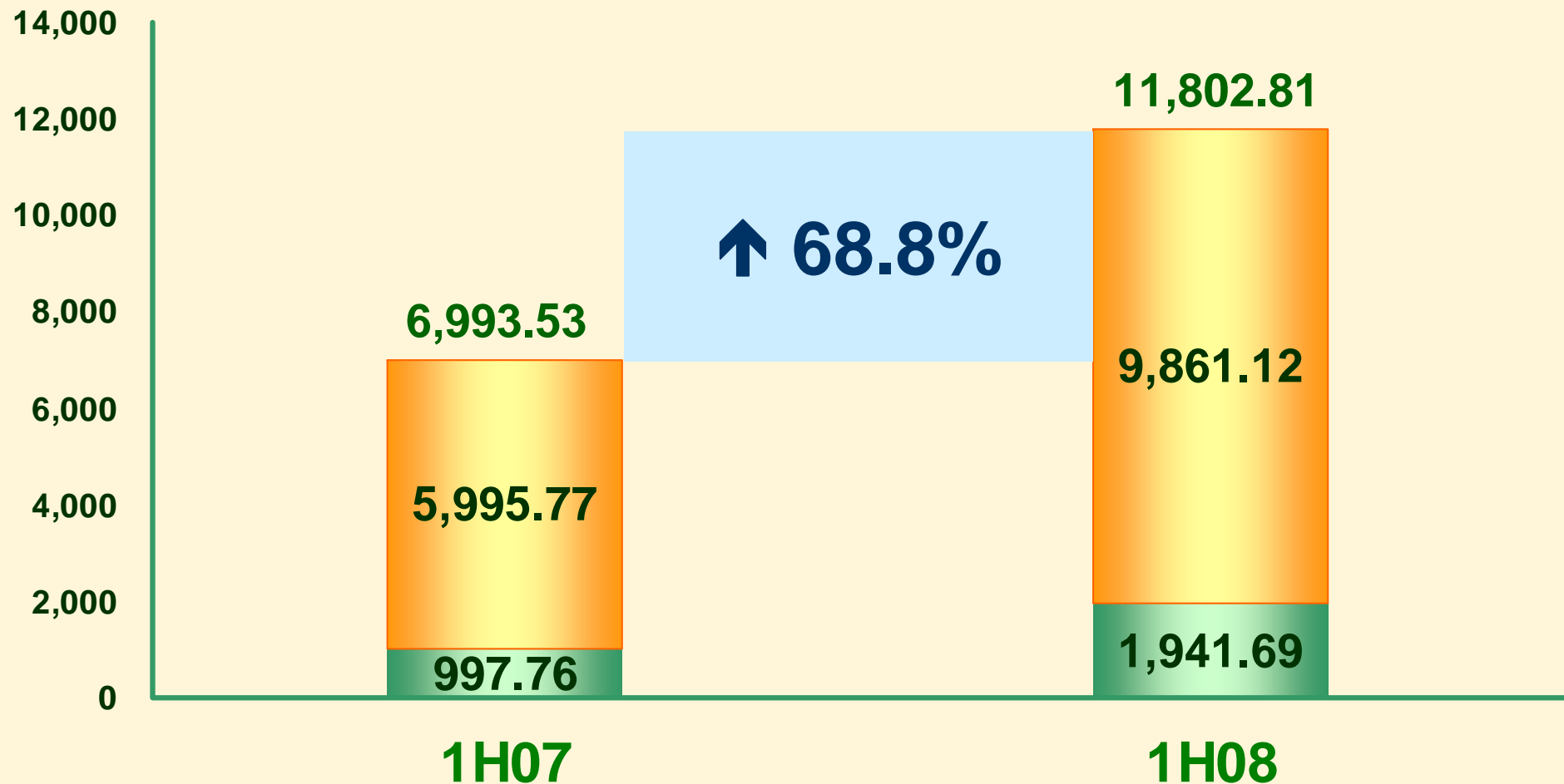
# **Life Insurance Business – TPL Review**

# Life Insurance – Premium Growth

HK\$ million

■ Unit-linked Products

■ Non Unit-linked Products



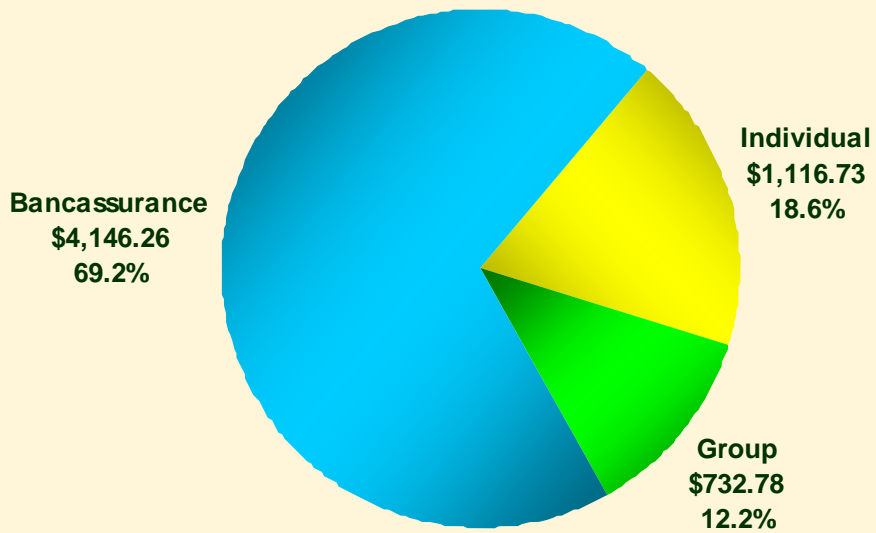
# Life Insurance

## – Gross Premiums of Non Unit-Linked Products

### By Distribution Channels

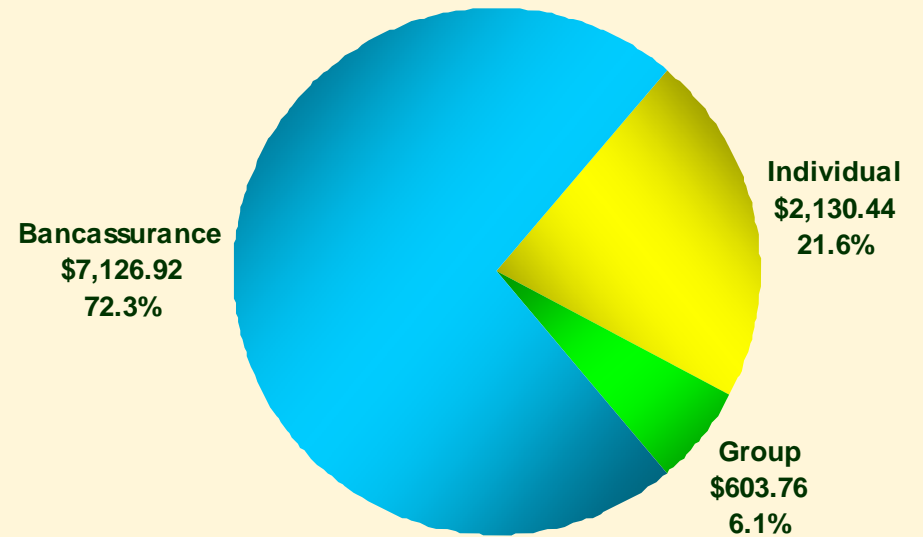
**1H07**

Total: HK\$5,995.77 million



**1H08**

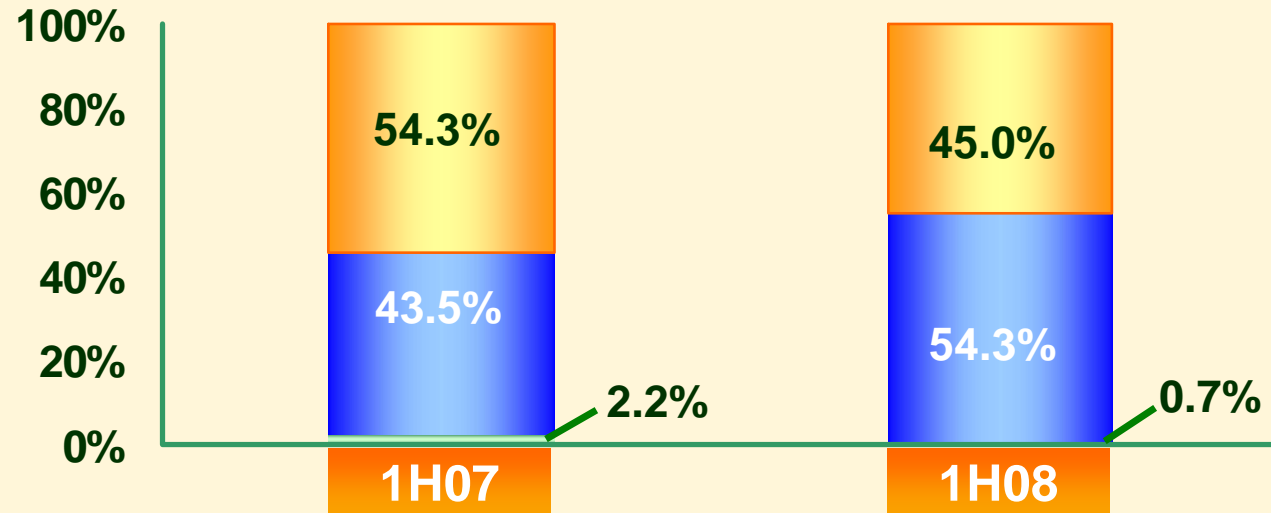
Total: HK\$9,861.12 million



# Life Insurance

## – Individual Gross Premium of Non Unit-Linked Products

HK\$ million



■ Regular Premium - Renewal Year

■ Regular Premium - First Year

■ Single Premium

**1H07**  
\$606.42

\$485.68

\$24.63

\$1,116.73

**1H08**  
\$958.96

\$1,156.22

\$15.26

\$2,130.44

**Unit-Linked Products**

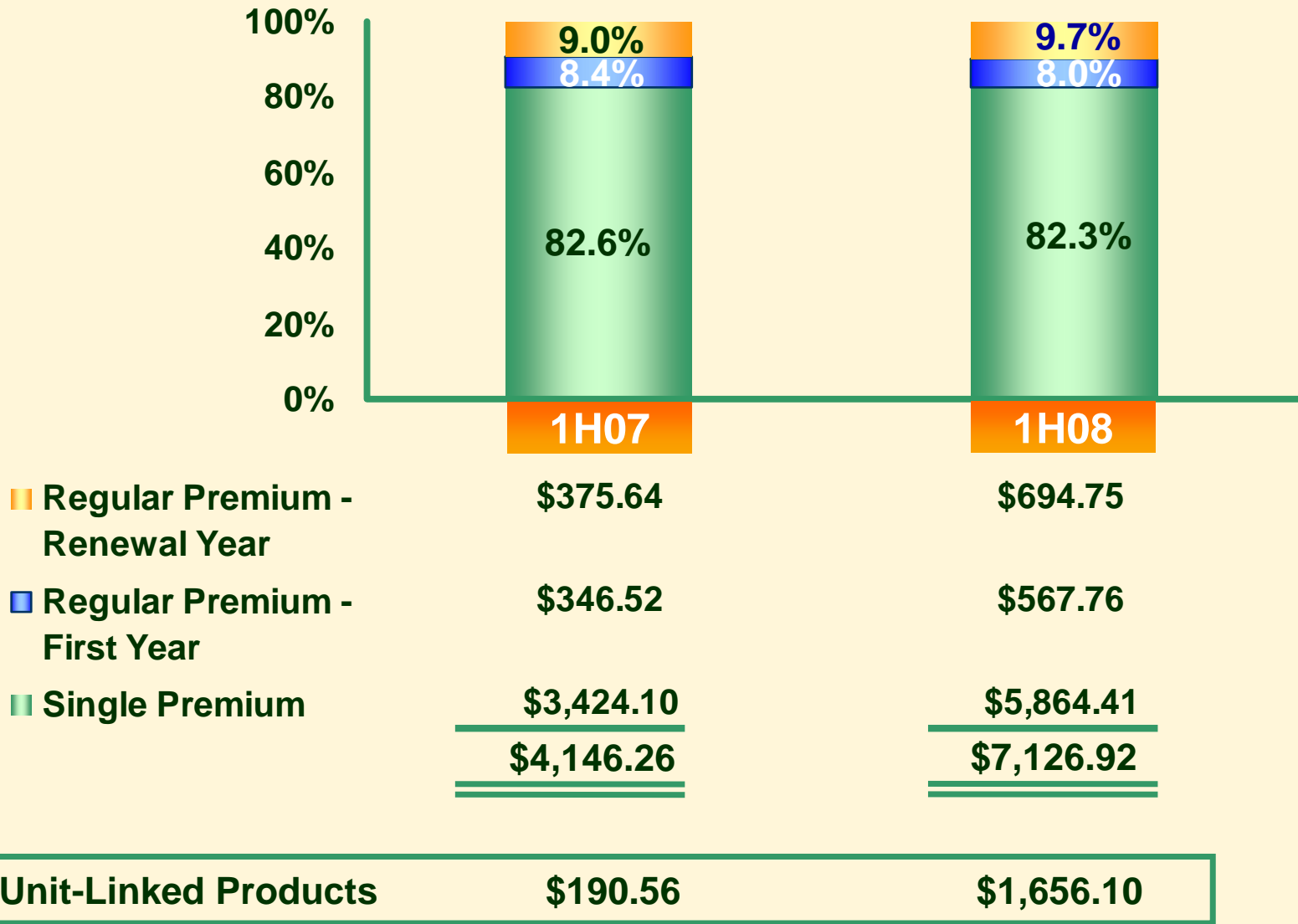
**\$805.52**

**\$285.59**

# Life Insurance

## – Bancassurance Gross Premium of Non Unit-Linked Products

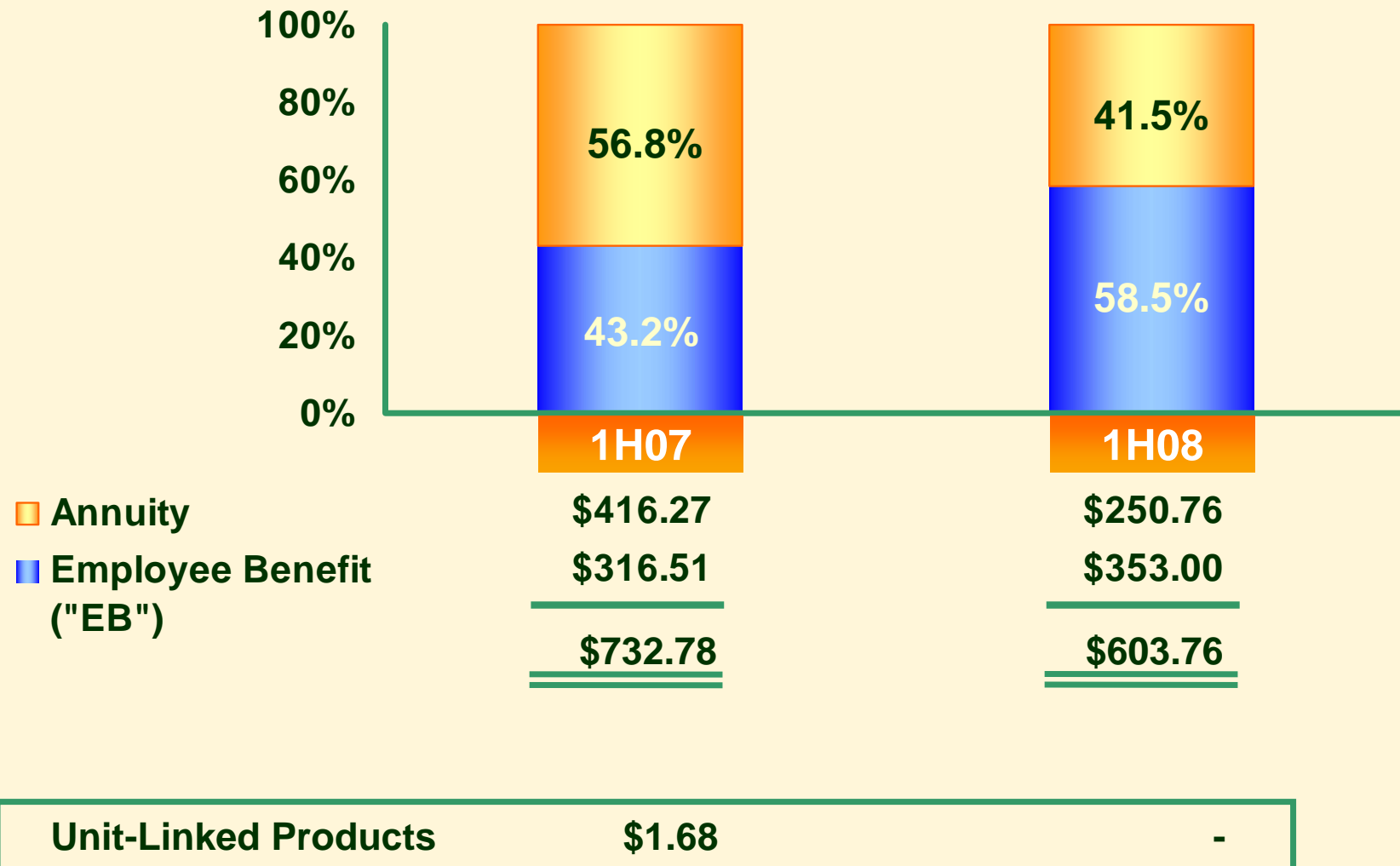
HK\$ million



# Life Insurance

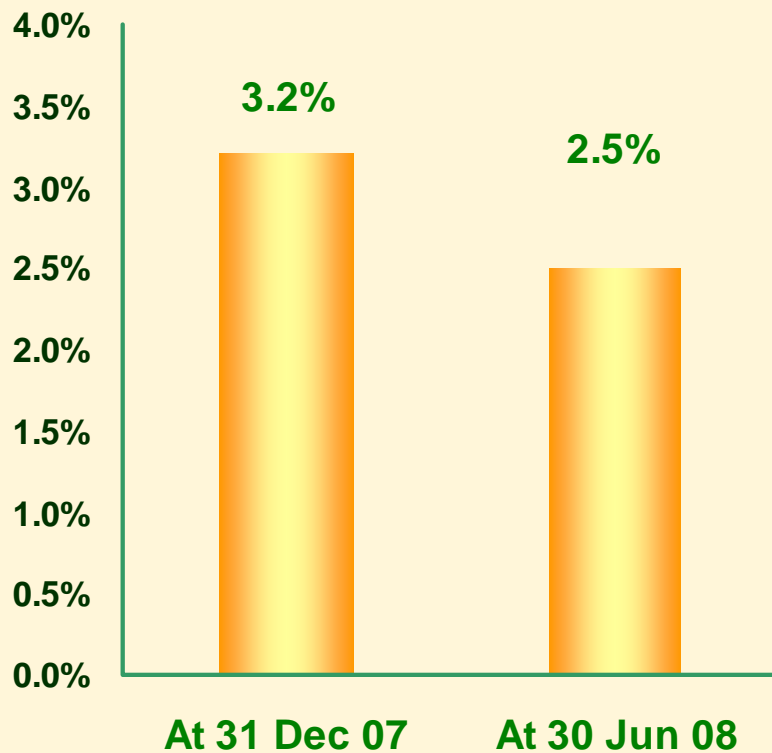
## – Group Gross Premium of Non Unit-Linked Products

HK\$ million



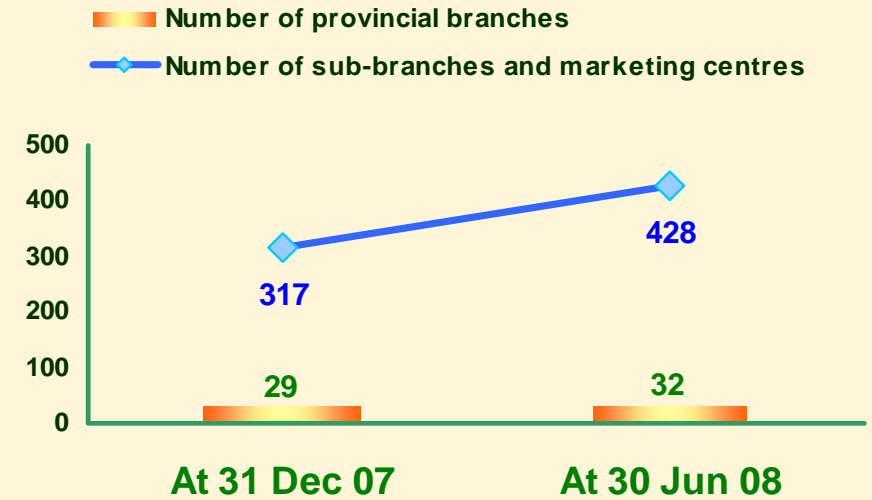
# Life Insurance – Key Operational Data (1/2)

## Market Share

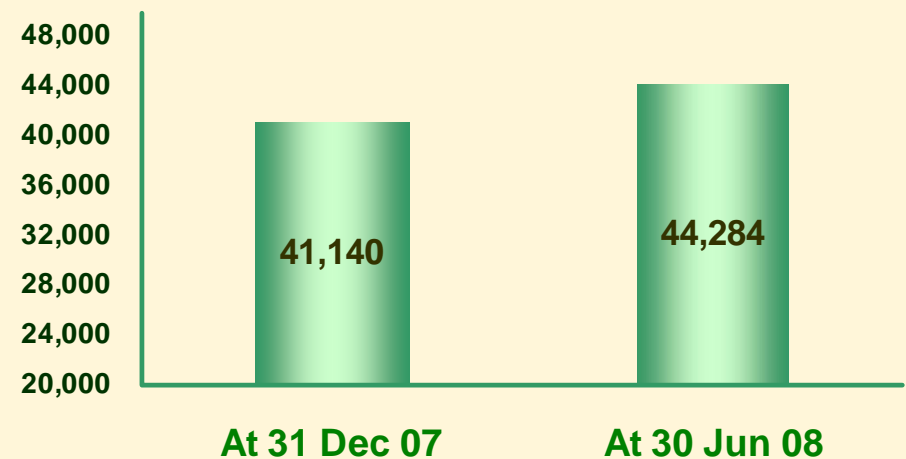


*Based on the gross premiums written in accordance with PRC GAAP and published by the CIRC*

## Number of Branches

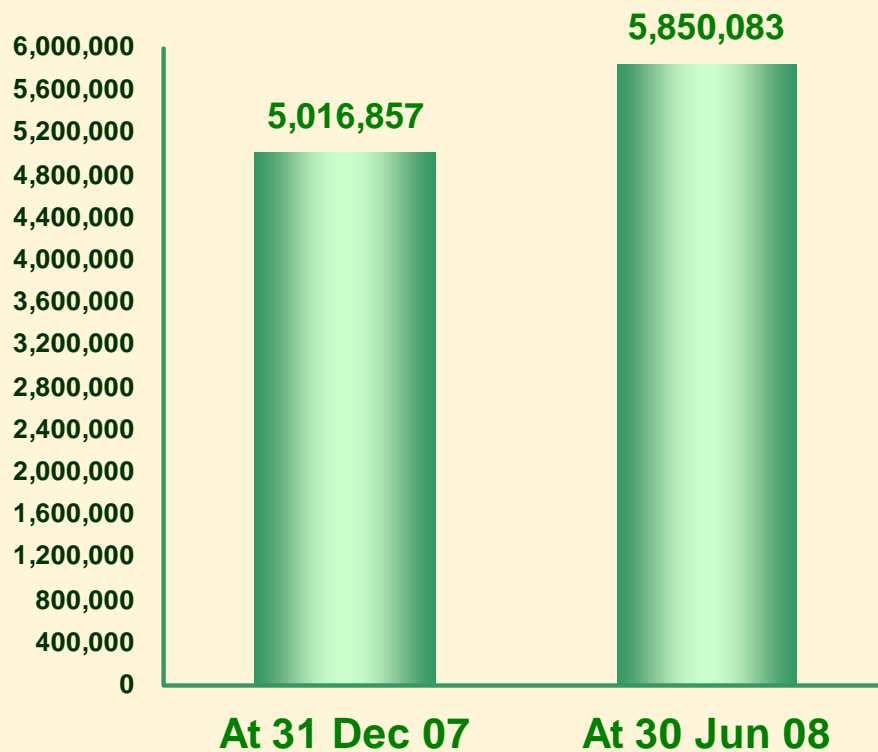


## Number of Individual Agents

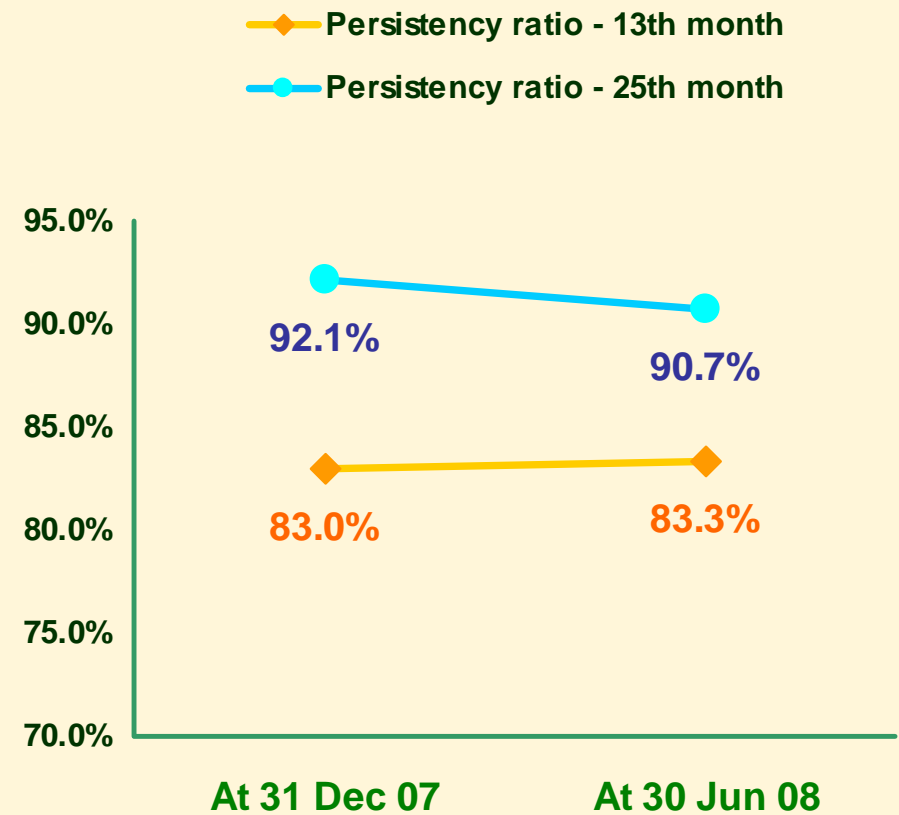


# Life Insurance – Key Operational Data (2/2)

**Number of In-Force Policies**



**Persistency Ratio**



*Based on the premium amounts*

# Life Insurance – Investment Income and Yield

HK\$ million

1H08

1H07

Change

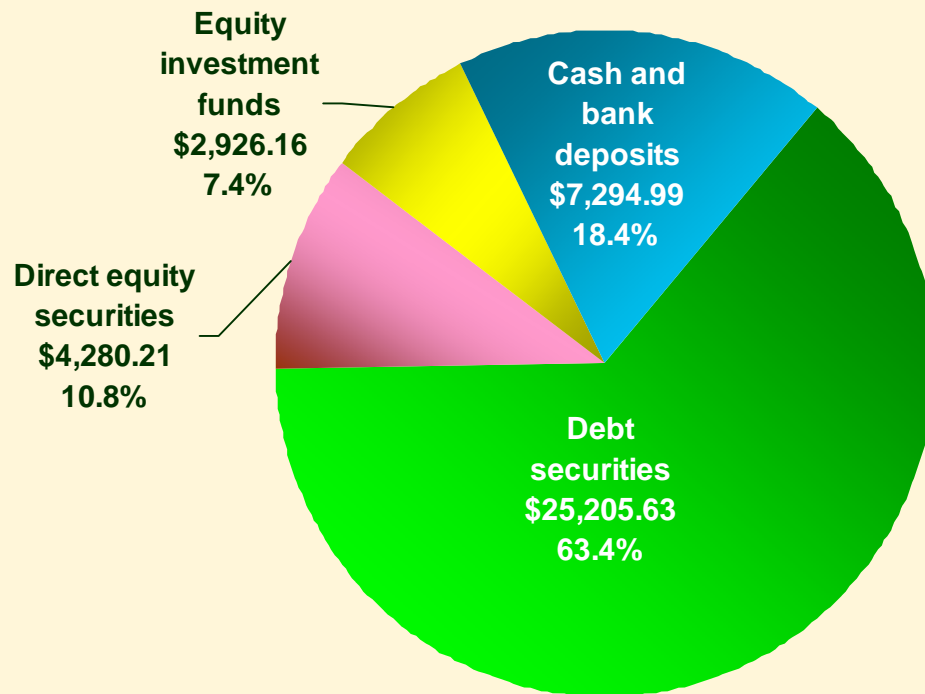
## Income recognised in Income Statement

Net investment income	1,889.08	836.95	2.3 times
Net realised investment gains	1,006.74	942.20	6.9%
Net unrealised investment (losses)/gains	(2,559.56)	282.22	-
Impairment on AFS equities	(92.10)	-	-
<b>Total investment income</b>	<b>244.16</b>	<b>2,061.37</b>	<b>(88.2%)</b>
Less: Investment (losses)/gains attributable to unit-linked products	(1,755.91)	54.19	-
<b>Total investment income excluding unit-linked products income</b>	<b>2,000.07</b>	<b>2,007.18</b>	<b>(0.4%)</b>
<b>Total investment yield (year-to-date) excluding unit-linked products income</b>	<b>4.5%</b>	<b>6.7%</b>	<b>(2.2 pts)</b>
<b>Net unrealised investment losses recognised in Fair Value Reserve</b>	<b>2,298.27</b>	<b>253.75</b>	<b>9.1 times</b>

# Life Insurance – Investment Composition (Excluding Unit-Linked Product Assets)

**At 31 Dec 07**

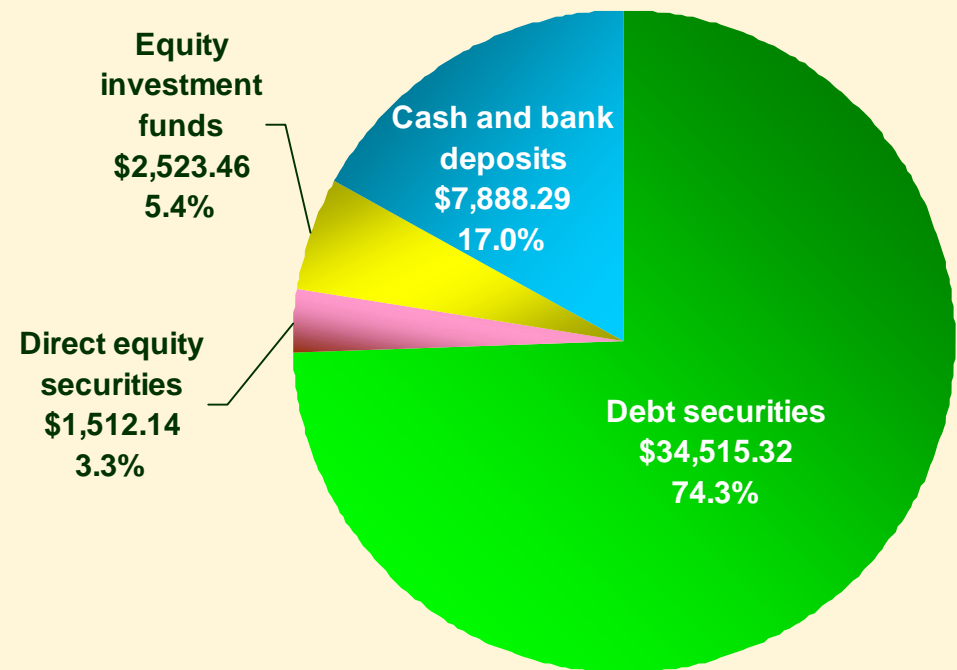
**Investment assets (excluding unit-linked product assets):  
HK\$39,706.99 million**



**Unit-linked product assets:  
HK\$4,530.17 million**

**At 30 Jun 08**

**Investment assets (excluding unit-linked product assets):  
HK\$46,439.21 million**

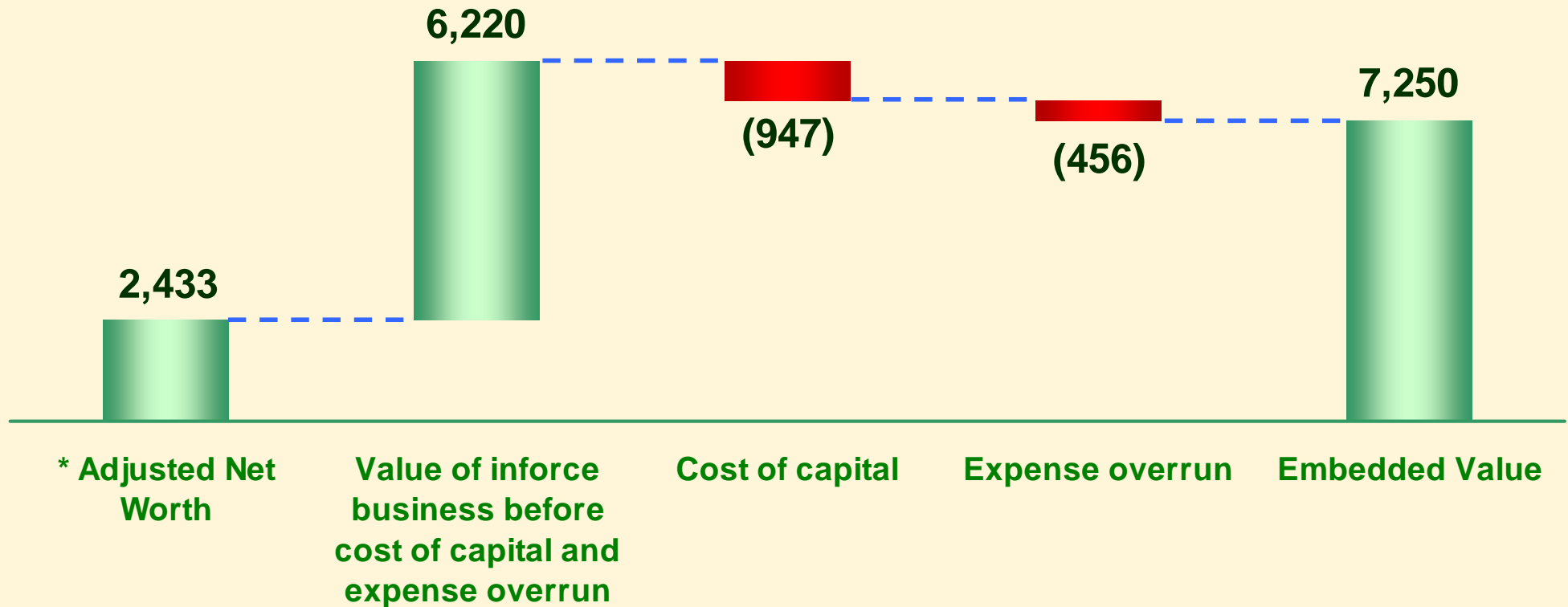


**Unit-linked product assets:  
HK\$4,642.19 million**

# Embedded Value of TPL

# Embedded Value of TPL – Key Components

At 30 June, 2008  
HK\$ million

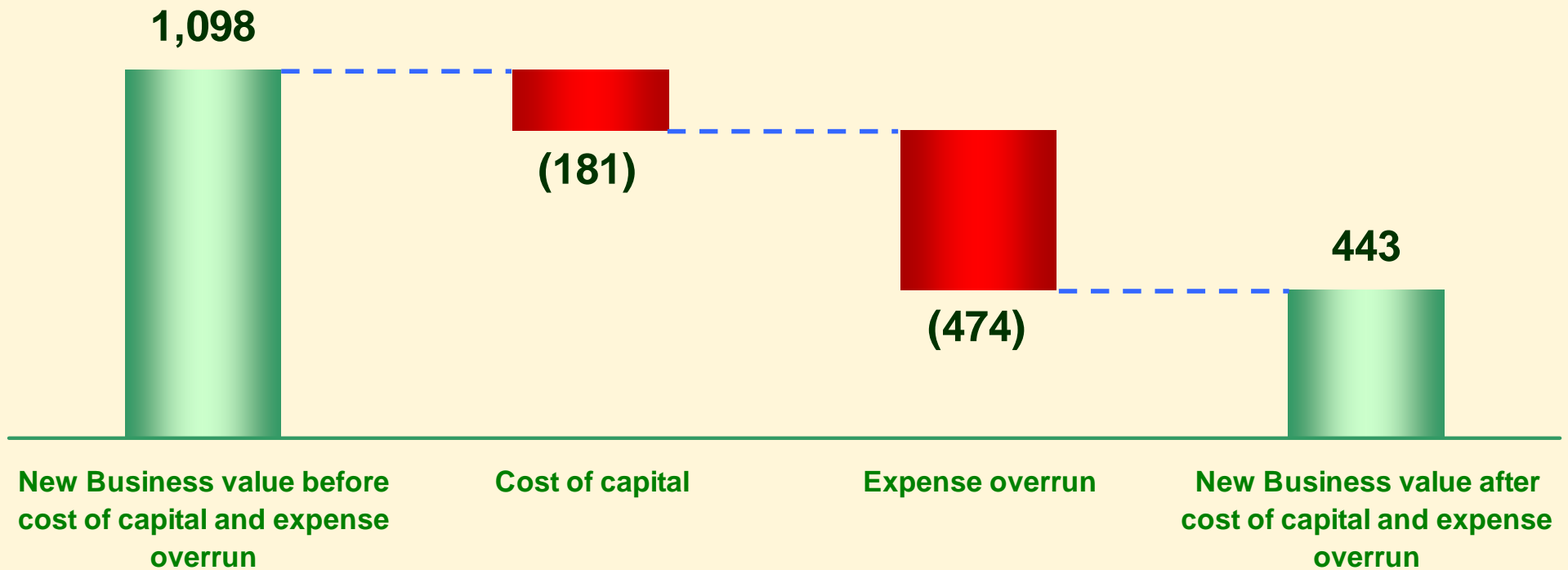


\* Adjusted net worth is the Shareholders' net assets of TPL as measured on a PRC statutory basis

# Embedded Value of TPL

## – Analysis of New Business Value

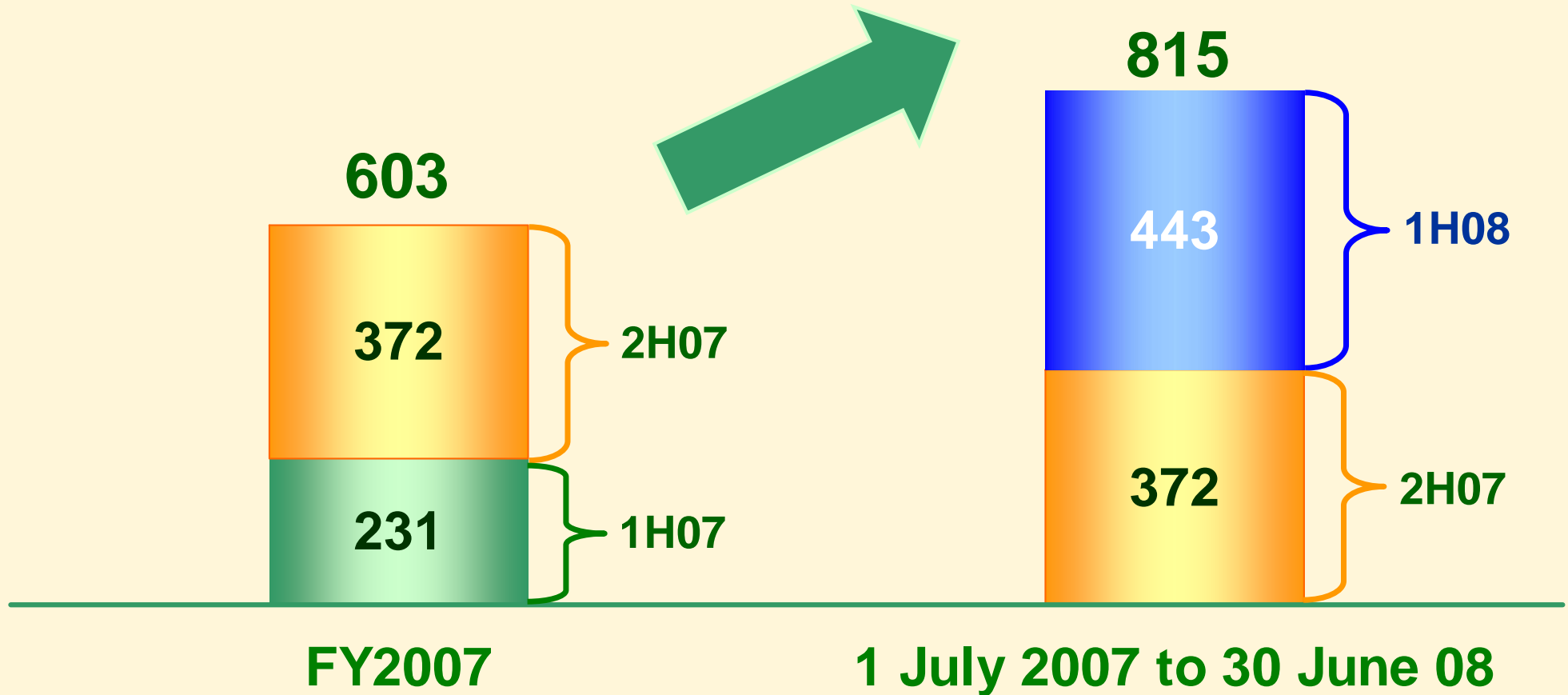
For six months ended 30 June, 2008  
 HK\$ million



# Embedded Value of TPL

## – Analysis of New Business Value (After Expense Overrun)

HK\$ million



# Embedded Value of TPL – Expense Overrun

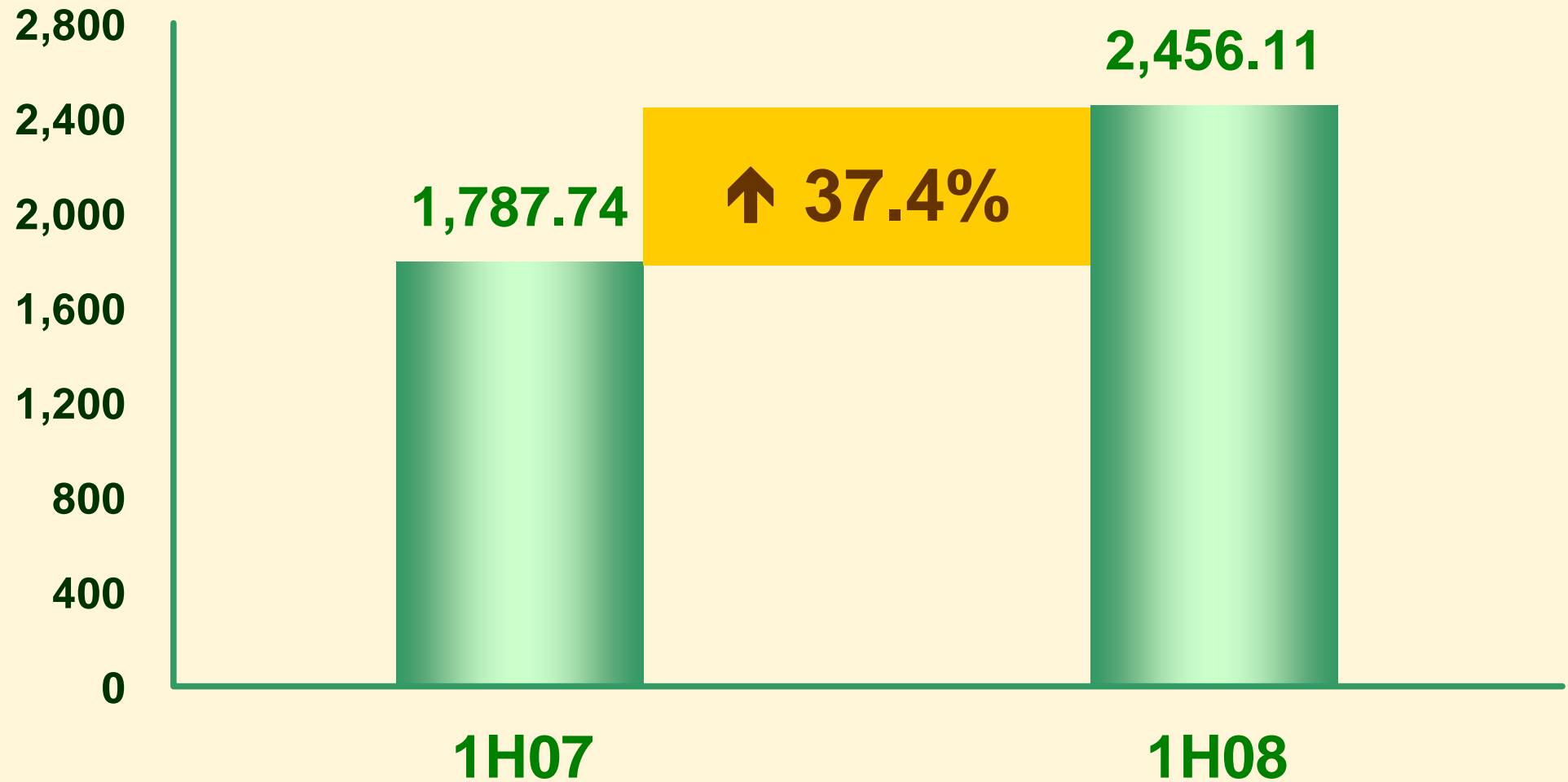
- ◆ **TPL's expense overrun is due to its significant investments in establishing a branch network infrastructure, initiating relationships with business partners, establishing computer systems and hiring a highly professional management team**
- ◆ **The expense overrun will diminish over time as TPL's scale of operations increases in the future**

# **Property and Casualty Insurance Business – TPI Review**

**Note:** The P&C insurance business is operated by TPI which is an associated company of the Group under the Hong Kong accounting standards and is not consolidated into the Group on a line-by-line basis. Therefore, the P&C insurance business does not constitute a separate segment of the Group as defined in the financial statements. Subsequent to 30 June 2008, CIH's stake increased to 50.05% and CIH became the controlling shareholder of TPI

# P&C Insurance – Premium Growth

HK\$ million

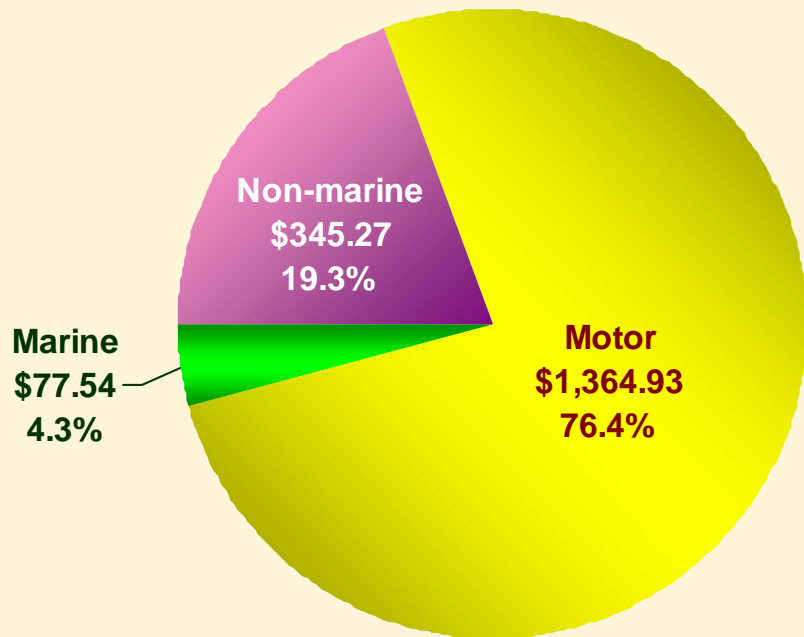


# P&C Insurance – Gross Premium

## By Product Lines

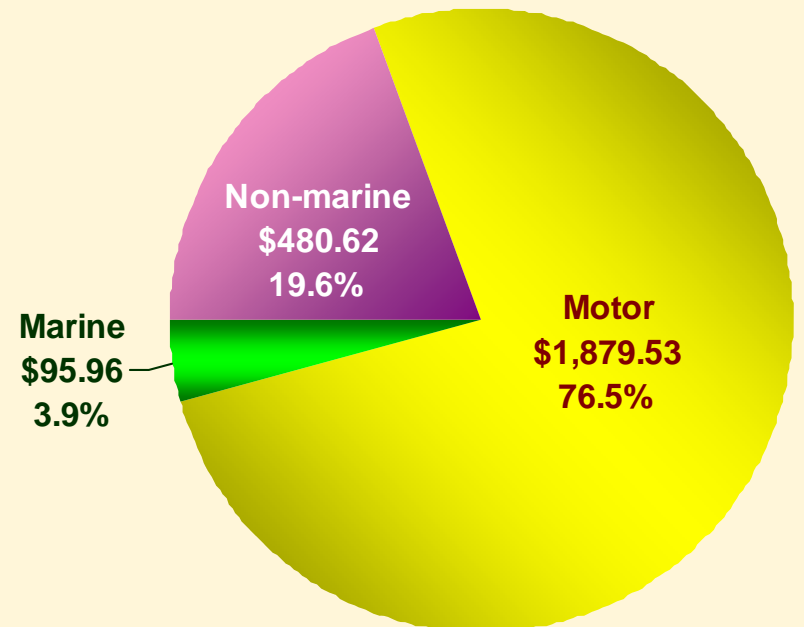
**1H07**

Total: HK\$1,787.74 million

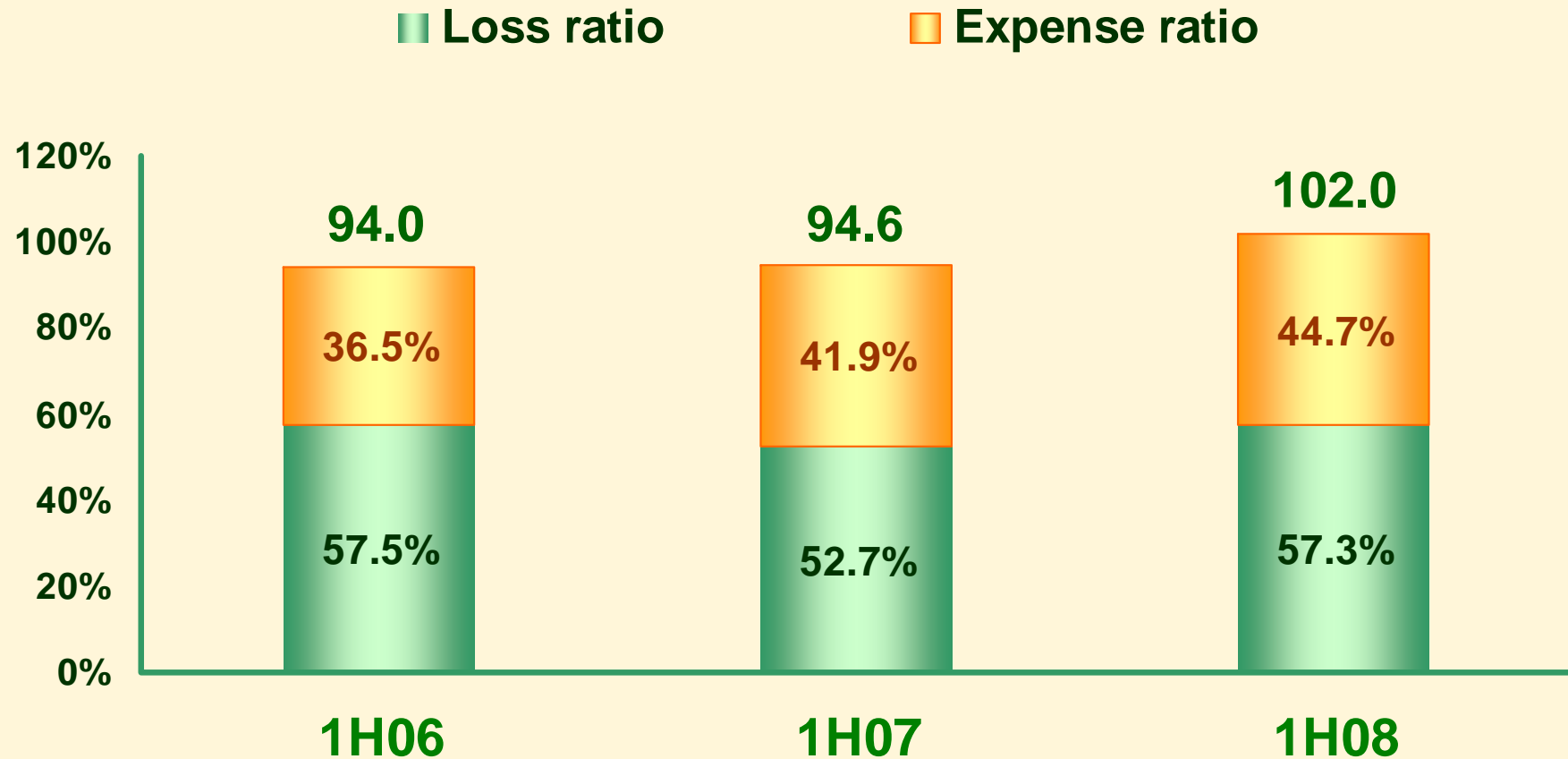


**1H08**

Total: HK\$2,456.11 million



# P&C Insurance – Combined Ratio



- 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 under net premiums written is a fairer indicator and better reflects the underwriting performance of TPI. If the net earned premium basis is applied, then the expense ratio would be 53.6% for the Period (2007: 63.2%)
- 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 110.9 for the Period (2007: 115.9)

# Outlook

# Outlook

## Overall

- ✦ **In comparing the investment returns of 2007 with that of the first half of 2008, it is highly unlikely that the extraordinary investment results of 2007 will be achieved in 2008. Nonetheless, due to its careful risk management and conservative investment policy across its business lines, CIH does hope to achieve a satisfactory investment result for the full year which is commensurate with what it expects its long-term investment yield to be**

# Outlook

## Reinsurance

- ★ Given the rising level of catastrophe events and continued uncertainties with global investment and economic conditions, CIRe will apply more emphasis to proper risk management of its reinsurance and investment operations
- ★ CIRe will continue its strategy of selective growth in key markets. In Mainland China, which has strong, long-term potential demand for reinsurance, CIRe has applied to open a branch in Beijing, which hopefully will begin operations in late 2008. In Hong Kong and Macau, CIRe is well-positioned in its local, “home” markets, and is confident to maintain its leading position at acceptable terms and conditions. In other parts of Asia and elsewhere, CIRe is well-positioned to maintain its market share
- ★ Although CIRe’s net profit in 2008 will probably not be at the same level as that achieved in 2007, CIRe continues to be confident of a satisfactory result for the whole year

# Outlook

## Life Insurance

- ✦ With the PRC economy and life insurance industry likely to continue growing well in the remaining part of 2008, TPL is highly confident of achieving its operational benchmarks for the whole year. TPL will continue to focus on building a solid foundation for sustainable and profitable growth into the future. TPL plans to open more than 100 new sub-branches and marketing centres in the second half of the year
- ✦ For its investment portfolio, TPL will continue to adopt a prudent and conservative policy whereby most of its assets are allocated to fixed income securities or bank deposits. TPL will continue to adopt a very conservative posture with its equity allocation. Greater focus will be given to risk management and proper procedures, in order to ensure the proper safeguarding of the overall investment portfolio
- ✦ Because the extraordinary investment gains in 2007 in the PRC equity markets are not expected to be repeated in 2008, TPL's net profit results in 2008 will most likely not reach the same level as that of 2007. However, TPL does expect a satisfactory performance in both top-line and bottom-line results in 2008, which will place TPL in a strong position to continue its profitable expansion in the years to come

# Outlook

## Property and Casualty

- ✦ **TPI's planned expansion in 2008 will continue during the second half of the year. Although TPI will likely again produce operational losses in 2008, the planned expansion and premium growth will allow TPI to eventually achieve the economies of scale necessary for sustainable profitability into the future**
- ✦ **TPI hopes to be able to achieve this objective and the scale necessary to consistently achieve combined ratios of below 100 sometime within the next 3 to 5 years**

# **Appendix**

- I. Consolidated and Segmental Income Statement**
- II. Consolidated and Segmental Balance Sheet**
- III. Embedded Value of TPL – Key Assumptions**

# Appendix I – Consolidated and Segmental Income Statement

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2008 \$'000	2007 \$'000
<b>Revenue</b>		
Gross premiums written and policy fees	13,299,679	8,317,647
Less: Premiums ceded to reinsurers and retrocessionaires	(293,200)	(216,230)
Net premiums written and policy fees	13,006,479	8,101,417
Change in unearned premium provisions, net of reinsurance	(553,910)	(415,164)
Net earned premiums and policy fees	12,452,569	7,686,253
Net investment income	2,050,731	975,064
Net realised investment gains	926,040	1,176,401
Net unrealised investment (losses)/gains and impairment	(2,765,884)	316,658
Net exchange loss	(43,656)	(4,373)
Other income	47,426	37,839
Total revenue	12,667,226	10,187,842
<b>Benefits, losses and expenses</b>		
Policyholders' benefits	(2,500,829)	(1,869,202)
Net commission expenses	(1,386,329)	(916,726)
Administrative and other expenses	(1,341,518)	(843,592)
Change in life insurance funds, net of reinsurance	(6,678,753)	(5,699,569)
Total benefits, losses and expenses	(11,907,429)	(9,329,089)
<b>Profit from operations</b>	759,797	858,753
Share of losses of associates	(46,941)	(2,149)
Finance costs	(76,953)	(73,658)
<b>Profit before taxation</b>	635,903	782,946
Income tax credit/(charge)	139,350	(148,024)
<b>Profit after taxation</b>	775,253	634,922
<b>Attributable to:</b>		
Equity holders of the company	381,336	488,582
Minority interests	393,917	146,340
	775,253	634,922
	<i>cents</i>	<i>cents</i>
<b>Earnings per share attributable to the equity holders of the company</b>		
Basic	27.0	34.7
Diluted	26.6	34.2

## Appendix I – Consolidated and Segmental Income Statement (Continued)

### Segmental income statement for the six months ended 30 June 2008

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Revenue</b>				
Gross premiums written	1,493,698	11,802,807	-	13,296,505
Policy fees	-	3,174	-	3,174
	<u>1,493,698</u>	<u>11,805,981</u>	<u>-</u>	<u>13,299,679</u>
Less: Premiums ceded to reinsurers and retrocessionaires	(240,493)	(52,707)	-	(293,200)
Net premiums written and policy fees	1,253,205	11,753,274	-	13,006,479
Change in unearned premium provisions, net of reinsurance	(516,557)	(37,353)	-	(553,910)
Net earned premiums and policy fees	736,648	11,715,921	-	12,452,569
Net investment income ( <i>note (i)</i> )	91,513	1,889,077	70,141	2,050,731
Net realised investment (losses)/gains ( <i>note(ii)</i> )	(37,500)	1,006,740	(43,200)	926,040
Net unrealised investment losses and impairment ( <i>note (iii)</i> )	(34,145)	(2,651,655)	(80,084)	(2,765,884)
Net exchange gain/(loss)	34,916	(78,822)	250	(43,656)
Other income	618	12,161	89,344	102,123
Inter-segment transactions	-	-	(54,697)	(54,697)
	<u>792,050</u>	<u>11,893,422</u>	<u>(18,246)</u>	<u>12,667,226</u>
<b>Benefits, losses and expenses</b>				
Policyholders' benefits	(360,541)	(2,140,288)	-	(2,500,829)
Net commission expenses	(319,040)	(1,088,420)	-	(1,407,460)
Administrative and other expenses	(33,192)	(1,163,325)	(178,567)	(1,375,084)
Change in life insurance funds, net of reinsurance	-	(6,678,753)	-	(6,678,753)
Inter-segment transactions	3,526	51,171	-	54,697
	<u>(709,247)</u>	<u>(11,019,615)</u>	<u>(178,567)</u>	<u>(11,907,429)</u>
<b>Profit/(loss) from operations</b>	82,803	873,807	(196,813)	759,797
Share of losses of associates	-	(105)	(46,836)	(46,941)
Finance costs	-	(36,870)	(40,083)	(76,953)
<b>Profit/(loss) before taxation</b>	82,803	836,832	(283,732)	635,903
Income tax (charge)/credit	985	144,205	(5,840)	139,350
<b>Profit/(loss) after taxation</b>	83,788	981,037	(289,572)	775,253
Minority interests	-	(490,027)	96,110	(393,917)
<b>Profit/(loss) attributable to equity holders</b>	<u>83,788</u>	<u>491,010</u>	<u>(193,462)</u>	<u>381,336</u>

## Appendix I – Consolidated and Segmental Income Statement *(Continued)*

### Segmental income statement for the six months ended 30 June 2008 *(continued)*

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Note (i): Net investment income</b>				
Interest income from debt securities				
- Held-to-maturity	32,806	119,614	345	152,765
- Available-for-sale	17,730	569,465	12,625	599,820
- Designated at fair value through profit or loss	4,077	4,055	840	8,972
Dividend income from direct equity securities				
- Available-for-sale	10,133	20,074	5,384	35,591
- Designated at fair value through profit or loss	1,923	5,260	272	7,455
Dividend income from equity investment funds				
- Available-for-sale	-	296,943	-	296,943
- Designated at fair value through profit or loss	-	761,185	1,573	762,758
Dividend income from composite investment funds				
- Designated at fair value through profit or loss	1,595	-	33,474	35,069
Bank deposits and other interest income	21,813	179,522	15,775	217,110
Rentals receivable from investment properties	1,436	-	-	1,436
Interest expenses on securities sold under repurchase agreements	-	(67,041)	(147)	(67,188)
	<u>91,513</u>	<u>1,889,077</u>	<u>70,141</u>	<u>2,050,731</u>
<b>Note (ii): Net realised investment (losses)/gains</b>				
Debt securities				
- Available-for-sale	-	33,293	241	33,534
- Designated at fair value through profit or loss	16	(31,427)	543	(30,868)
Direct equity securities				
- Available-for-sale	(38,261)	863,327	(31,996)	793,070
- Designated at fair value through profit or loss	745	24,352	(2,174)	22,923
Equity investment funds				
- Available-for-sale	-	116,200	-	116,200
- Designated at fair value through profit or loss	-	995	(2,011)	(1,016)
Composite investment funds				
- Designated at fair value through profit or loss	-	-	(7,803)	(7,803)
	<u>(37,500)</u>	<u>1,006,740</u>	<u>(43,200)</u>	<u>926,040</u>

## Appendix I – Consolidated and Segmental Income Statement *(Continued)*

Segmental income statement for the six months ended 30 June 2008 *(continued)*

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Note (iii): Net unrealised investment losses and impairment</b>				
Debt securities				
- Designated at fair value through profit or loss	(15,676)	(15,040)	662	(30,054)
Direct equity securities				
- Designated at fair value through profit or loss	(14,236)	(801,062)	(5,431)	(820,729)
Equity investment funds				
- Designated at fair value through profit or loss	-	(1,743,453)	(4,991)	(1,748,444)
Composite investment funds				
- Designated at fair value through profit or loss	(2,046)	-	(67,324)	(69,370)
Surplus on revaluation of investment properties	10,813	-	-	10,813
Impairment on available-for-sale equities	(13,000)	(92,100)	(3,000)	(108,100)
	<u>(34,145)</u>	<u>(2,651,655)</u>	<u>(80,084)</u>	<u>(2,765,884)</u>

# Appendix I – Consolidated and Segmental Income Statement *(Continued)*

## Segmental income statement for the six months ended 30 June 2007

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Revenue</b>				
Gross premiums written	1,320,725	6,993,534	-	8,314,259
Policy fees	-	3,388	-	3,388
	1,320,725	6,996,922	-	8,317,647
Less: Premiums ceded to reinsurers and retrocessionaires	(181,261)	(34,969)	-	(216,230)
Net premiums written and policy fees	1,139,464	6,961,953	-	8,101,417
Change in unearned premium provisions, net of reinsurance	(414,363)	(801)	-	(415,164)
Net earned premiums and policy fees	725,101	6,961,152	-	7,686,253
Net investment income <i>(note (i))</i>	91,242	836,946	46,876	975,064
Net realised investment gains <i>(note (ii))</i>	174,494	942,201	59,706	1,176,401
Net unrealised investment gains <i>(note (iii))</i>	5,355	282,219	29,084	316,658
Net exchange gain/(loss)	33,659	(34,351)	(3,681)	(4,373)
Other income	2,577	1,797	51,952	56,326
Inter-segment transactions	(150)	(1,090)	(17,247)	(18,487)
	1,032,278	8,988,874	166,690	10,187,842
<b>Benefits, losses and expenses</b>				
Policyholders' benefits	(398,750)	(1,470,452)	-	(1,869,202)
Net commission expenses	(283,738)	(632,988)	-	(916,726)
Administrative and other expenses	(24,940)	(735,311)	(101,828)	(862,079)
Change in life insurance funds, net of reinsurance	-	(5,699,569)	-	(5,699,569)
Inter-segment transactions	6,213	11,034	1,240	18,487
	(701,215)	(8,527,286)	(100,588)	(9,329,089)
<b>Profit from operations</b>				
	331,063	461,588	66,102	858,753
Share of losses of associates	-	(149)	(2,000)	(2,149)
Finance costs	-	(33,772)	(39,886)	(73,658)
	331,063	427,667	24,216	782,946
<b>Profit before taxation</b>	331,063	427,667	24,216	782,946
Income tax charge	(19,591)	(120,908)	(7,525)	(148,024)
	311,472	306,759	16,691	634,922
<b>Profit after taxation</b>	311,472	306,759	16,691	634,922
Minority interests	-	(153,226)	6,886	(146,340)
<b>Profit attributable to equity holders</b>	311,472	153,533	23,577	488,582

## Appendix I – Consolidated and Segmental Income Statement (Continued)

### Segmental income statement for the six months ended 30 June 2007 (continued)

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Note (i): Net investment income</b>				
Interest income from debt securities				
- Held-to-maturity	32,001	-	195	32,196
- Available-for-sale	10,943	363,820	3,406	378,169
- Designated at fair value through profit or loss	5,945	1,297	14,855	22,097
Dividend income from direct equity securities				
- Available-for-sale	3,580	5,726	1,395	10,701
- Designated at fair value through profit or loss	1,324	1,856	220	3,400
Dividend income from equity investment funds				
- Available-for-sale	-	182,369	-	182,369
- Designated at fair value through profit or loss	-	214,478	93	214,571
Dividend income from composite investment funds				
- Available-for-sale	464	-	-	464
- Designated at fair value through profit or loss	899	-	-	899
Bank deposits and other interest income	34,851	130,760	26,058	191,669
Rentals receivable from investment properties	1,235	-	-	1,235
Interest expenses on securities sold under repurchase agreements	-	(63,360)	654	(62,706)
	<u>91,242</u>	<u>836,946</u>	<u>46,876</u>	<u>975,064</u>
<b>Note (ii): Net realised investment (losses)/gains</b>				
Debt securities				
- Available-for-sale	-	(530)	-	(530)
- Designated at fair value through profit or loss	(20)	18,861	414	19,255
Direct equity securities				
- Available-for-sale	174,320	184,990	52,413	411,723
- Designated at fair value through profit or loss	446	212,014	1,572	214,032
Equity investment funds				
- Available-for-sale	-	333,848	-	333,848
- Designated at fair value through profit or loss	-	193,018	5,307	198,325
Investment properties	<u>(252)</u>	<u>-</u>	<u>-</u>	<u>(252)</u>
	<u>174,494</u>	<u>942,201</u>	<u>59,706</u>	<u>1,176,401</u>

## Appendix I – Consolidated and Segmental Income Statement *(Continued)*

### Segmental income statement for the six months ended 30 June 2007 *(continued)*

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Note (iii): Net unrealised investment gains</b>				
Debt securities				
- Designated at fair value through profit or loss	152	79,472	1,387	81,011
Direct equity securities				
- Designated at fair value through profit or loss	2,447	72,223	1,899	76,569
Equity investment funds				
- Designated at fair value through profit or loss	-	130,524	25,798	156,322
Composite investment funds				
- Designated at fair value through profit or loss	536	-	-	536
Derivative financial instruments	453	-	-	453
Surplus on revaluation of investment properties	1,767	-	-	1,767
	<u>5,355</u>	<u>282,219</u>	<u>29,084</u>	<u>316,658</u>

## Appendix II – Consolidated and Segmental Balance Sheet

### CONSOLIDATED BALANCE SHEET

At 30 June 2008 – unaudited

(Expressed in Hong Kong Dollars)

	At 30 June 2008 \$'000	At 31 December 2007 \$'000
<b>Assets</b>		
Statutory deposits	702,741	653,239
Fixed assets		
- Investment properties	89,373	78,560
- Other property, plant and equipment	1,554,697	1,313,147
	1,644,070	1,391,707
Goodwill	228,185	228,185
Interest in associates	402,319	530,436
Deferred tax assets	179,406	2,648
Investments in debt and equity securities	46,270,691	40,245,879
Amounts due from group companies	9,954	17,488
Insurance debtors	1,089,812	616,540
Reinsurers' share of insurance contract provisions	641,361	376,740
Other debtors	2,841,996	1,687,658
Pledged deposits at banks	92,736	97,417
Deposits at banks with original maturity more than three months	5,413,355	4,631,977
Cash and cash equivalents	4,860,327	5,137,635
	64,376,953	55,617,549
<b>Liabilities</b>		
Life insurance funds	47,915,333	38,529,656
Unearned premium provisions	1,544,186	893,924
Provision for outstanding claims	2,763,269	2,496,932
Investment contract liabilities	200,097	157,421
Deferred tax liabilities	452	949,031
Interest-bearing notes	3,065,277	2,960,377
Amounts due to group companies	102	46
Insurance creditors	253,617	394,116
Accrued charges and other creditors	1,126,252	1,046,389
Current taxation	528,651	85,999
Insurance protection fund	12,681	7,976
	57,409,917	47,521,867
<b>Net assets</b>	6,967,036	8,095,682
<b>Capital and reserves attributable to the company's equity holders</b>		
Share capital	70,958	70,764
Reserves	4,771,632	5,614,862
	4,842,590	5,685,626
<b>Minority interests</b>	2,124,446	2,410,056
<b>Total equity</b>	6,967,036	8,095,682

## Appendix II – Consolidated and Segmental Balance Sheet *(Continued)*

Segmental balance sheet as at 30 June 2008

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Statutory deposits	20,277	568,720	113,744	702,741
Investment properties	89,373	-	-	89,373
Other property, plant and equipment	3,031	1,478,810	72,856	1,554,697
Debt securities <i>(note (i))</i>	2,121,384	34,783,752	618,422	37,523,558
Direct equity securities <i>(note (ii))</i>	644,013	2,318,154	321,463	3,283,630
Equity investment funds <i>(note (iii))</i>	-	5,273,421	19,758	5,293,179
Composite investment funds <i>(note (iv))</i>	89,905	-	80,419	170,324
Cash and bank deposits	1,419,359	8,137,352	809,707	10,366,418
Goodwill	-	154,909	73,276	228,185
Interest in associates	-	4,430	397,889	402,319
Reinsurers' share of insurance contract provisions	580,243	61,118	-	641,361
Deferred tax assets	8,749	166,418	4,239	179,406
Other segment assets	889,852	3,007,559	44,351	3,941,762
<b>Total assets</b>	<b>5,866,186</b>	<b>55,954,643</b>	<b>2,556,124</b>	<b>64,376,953</b>
Life insurance funds	-	47,915,333	-	47,915,333
Unearned premium provisions	1,154,192	389,994	-	1,544,186
Provision for outstanding claims	2,561,831	201,438	-	2,763,269
Investment contract liabilities	-	200,097	-	200,097
Interest-bearing notes	-	1,706,160	1,359,117	3,065,277
Deferred tax liabilities	405	-	47	452
Other segment liabilities	158,543	1,575,609	187,151	1,921,303
<b>Total liabilities</b>	<b>3,874,971</b>	<b>51,988,631</b>	<b>1,546,315</b>	<b>57,409,917</b>
<b>Minority interests</b>	<b>-</b>	<b>2,141,714</b>	<b>(17,268)</b>	<b>2,124,446</b>
<b>Net assets attributable to the equity holders of the company</b>	<b>1,991,215</b>	<b>1,824,298</b>	<b>1,027,077</b>	<b>4,842,590</b>

## Appendix II – Consolidated and Segmental Balance Sheet *(Continued)*

Segmental balance sheet as at 30 June 2008 *(continued)*

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Note (i): Debt securities</b>				
- Held-to-maturity	1,179,662	9,842,437	16,668	11,038,767
- Available-for-sale	810,278	24,672,889	504,993	25,988,160
- Designated at fair value through profit or loss	<u>131,444</u>	<u>268,426</u>	<u>96,761</u>	<u>496,631</u>
	<u>2,121,384</u>	<u>34,783,752</u>	<u>618,422</u>	<u>37,523,558</u>
<b>Note (ii): Direct equity securities</b>				
- Available-for-sale	589,945	1,512,146	305,883	2,407,974
- Designated at fair value through profit or loss	<u>54,068</u>	<u>806,008</u>	<u>15,580</u>	<u>875,656</u>
	<u>644,013</u>	<u>2,318,154</u>	<u>321,463</u>	<u>3,283,630</u>
<b>Note (iii): Equity investment funds</b>				
- Available-for-sale	-	2,377,519	-	2,377,519
- Designated at fair value through profit or loss	<u>-</u>	<u>2,895,902</u>	<u>19,758</u>	<u>2,915,660</u>
	<u>-</u>	<u>5,273,421</u>	<u>19,758</u>	<u>5,293,179</u>
<b>Note (iv): Composite investment funds</b>				
- Available-for-sale	52,478	-	-	52,478
- Designated at fair value through profit or loss	<u>37,427</u>	<u>-</u>	<u>80,419</u>	<u>117,846</u>
	<u>89,905</u>	<u>-</u>	<u>80,419</u>	<u>170,324</u>

## Appendix II – Consolidated and Segmental Balance Sheet (Continued)

### Segmental balance sheet as at 31 December 2007

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
Statutory deposits	12,475	533,970	106,794	653,239
Investment properties	78,560	-	-	78,560
Other property, plant and equipment	3,106	1,231,432	78,609	1,313,147
Debt securities (note (i))	1,734,132	25,434,221	322,170	27,490,523
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	1,618,787	117,928	2,324,334
<b>Total assets</b>	<b>5,264,493</b>	<b>47,299,787</b>	<b>3,053,269</b>	<b>55,617,549</b>
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
<b>Total liabilities</b>	<b>3,093,262</b>	<b>42,868,502</b>	<b>1,560,103</b>	<b>47,521,867</b>
<b>Minority interests</b>	<b>-</b>	<b>2,348,861</b>	<b>61,195</b>	<b>2,410,056</b>
<b>Net assets attributable to the equity holders of the company</b>	<b>2,171,231</b>	<b>2,082,424</b>	<b>1,431,971</b>	<b>5,685,626</b>

## Appendix II – Consolidated and Segmental Balance Sheet *(Continued)*

Segmental balance sheet as at 31 December 2007 *(continued)*

	Reinsurance \$'000	Life insurance \$'000	Corporate and other businesses \$'000	Total \$'000
<b>Note (i): Debt securities</b>				
- 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
	<u>1,734,132</u>	<u>25,434,221</u>	<u>322,170</u>	<u>27,490,523</u>
<b>Note (ii): Direct equity securities</b>				
- 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>
<b>Note (iii): Equity investment funds</b>				
- 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
	<u>-</u>	<u>5,493,209</u>	<u>121,747</u>	<u>5,614,956</u>
<b>Note (iv): Composite investment funds</b>				
- Available-for-sale	51,378	-	-	51,378
- Designated at fair value through profit or loss	39,463	-	49,107	88,570
	<u>90,841</u>	<u>-</u>	<u>49,107</u>	<u>139,948</u>

# Embedded Value of TPL – Key Assumptions

Assumptions	Description
Risk discount rate	11.5% for base case
Investment return	4.57% in 2008, increasing to 5% in 2026 and thereafter
Expense	Projections are based on the benchmark assumptions. The expense overrun is derived from TPL's recent experience studies, and have been applied to both the value of inforce business and one year's new business value
Tax	The tax rate is assumed to be 25% according to the new tax regulations in PRC
Mortality	Based on 70% of the China Life (2000-2003) table for non-annuities, with a three-year selection period
Morbidity	Based on the Group's own pricing tables
Lapse	Based on TPL's actuarial pricing assumptions and adjusted to reflect the results of its recent experience studies

# Questions & Answers