



MANAGEMENT REVIEW AND ANALYSIS

FINANCIAL RESULTS

During the year, total turnover for the Group was HK\$2,763.65 million (2001: HK\$830.39 million) and net profit attributable to shareholders of the Company amounted to HK\$115.42 million (2001: HK\$230.23 million), representing an increase of 232.8% and decrease of 49.9%, respectively, compared with the previous year. Basic earnings per share was HK9 cents (2001: HK23 cents) and diluted earnings per share was HK9 cents (2001: HK23 cents).

The directors have recommended a final dividend of HK1.5 cents per ordinary share. Together with the interim dividend of HK1.5 cents declared and paid during the year, total dividend in respect of the year 2002 amounted to HK3.0 cents per share (2001: HK5.0 cents).

OPERATIONAL REVIEW

Reinsurance Underwriting

CIRe

Reinsurance underwriting by CIRe performed well during the year. Benefiting from the “hard market” in global reinsurance markets due to the restricted supply of reinsurance and a general increase in insurance and reinsurance pricing, total premiums on all classes booked during the year was HK\$1,164.52 million, a significant increase of 42.3% over the previous year.

The strong growth of reinsurance premiums in 2002 reflected the tightening of terms and conditions in the global reinsurance industry after the very competitive market conditions in the late 1990s. It was also attributed to the pro-active underwriting philosophy of the Group.

In the core markets, the premium from Hong Kong and Macau contributed 41.8% (2001: 41.4%) of the total premium. The PRC (including Taiwan) contributed 8.5% (2001: 9.5%), Japan 5.8% (2001: 6.2%) and the rest of Asia 23.1% (2001: 22.3%). The premium from Europe was 15.8% (2001: 14.8%) and that from the United States was 2.7% (2001: 3.0%).

With the exception of claims emanating from the Jakarta Floods in Indonesia in January 2002, which cost CIRe approximately HK\$20.00 million, there were no major claims reported during the year. The strong growth in premiums together with an absence of major claims incurred are the two key factors behind CIRe’s very strong positive cash flows position from underwriting activities. The Insurance Funds as at the end of the year increased to HK\$753.93 million, from HK\$522.54 million in the previous year, and the provision for outstanding claims was HK\$566.18 million, compared to HK\$623.12 million at the end of the previous year. It is expected that these two reserve accounts amounting in aggregate to HK\$1,320.11 million will enable the 2001 and 2002 underwriting years to be closed with good prospects of satisfactory returns.

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CIRe's underwriting profit for the year was HK\$84.22 million as compared to HK\$0.73 million in the previous year. The increase in underwriting profitability was partly due to premium rates starting to increase in 2000 and partly due to savings in claim settlements against the outstanding claim reserves provided under the three-year fund accounting policy. The profit contribution from reinsurance underwriting operations to the Group during the year (including investment income) was HK\$134.57 million compared to HK\$58.26 million for the previous year, representing an increase of 130.9%.

During 2002, CIRe also received an upgrade in credit ratings to A- (Stable Outlook) from Standard & Poor's on its insurer financial strength and long-term counterparty credit. The Group views this improvement in credit ratings to be a significant accomplishment which will further strengthen the core operations and business of CIRe. Together with the existing financial strength rating of A- (Excellent) with a positive outlook assigned from A.M. Best, CIRe's marketing capabilities have been enhanced and will allow the company better access to more quality business.

Insurance Intermediaries

SINO-RE

The brokerage turnover in SINO-RE attributable to the Group during the year was HK\$15.32 million, an increase of 31.8% from the previous year's turnover of HK\$11.62 million. The profit contributed to the Group from SINO-RE was HK\$9.99 million, as compared to HK\$8.54 million in the previous year. The increase in both brokerage turnover and profitability was attributed to increases in reinsurance rates and premiums on the contracts handled by SINO-RE.

Insurance Operations in Mainland China

Life Insurance Business

TPL

Since returning to operations in December 2001, TPL has experienced excellent growth in business and established a solid foundation in the PRC life insurance market. TPL's strong operational performance has been the result of the hard work and dedication of the company's management team and all staff.

During the year, total life insurance premium income written by TPL amounted to HK\$1,556.49 million, ranking it seventh in the entire life insurance market in the PRC. Of the total life insurance premium income written, individual life insurance through agency sales accounted for HK\$77.62 million, group life insurance HK\$381.05 million and individual life insurance through bancassurance HK\$1,097.82 million. Among TPL's four branches in Shanghai, Beijing, Chengdu and Guangzhou, the Shanghai branch recorded the highest premium income of HK\$720.93 million, representing a 4.0% share of the Shanghai market and making TPL the fifth largest life insurance company in Shanghai.



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TPL's net loss from operations for the year was HK\$99.07 million (2001: HK\$26.25 million). Referencing international life insurance industry experience and benchmarks for start-up insurers, the net loss from operations recorded by TPL falls within the normal range. The net loss attributable to the Group (after Minority Interest) for the year was HK\$54.54 million (2001: HK\$14.07 million).

TPL's strong operating performance in 2002 was attributable to several factors. First, TPL's decision to pursue the bancassurance as a major channel of distributing insurance products has been appropriate for the current state of development of China's insurance industry. TPL derived approximately 70.5% of its premium income from customers via various banks, with ICBC, the largest commercial bank in the PRC, playing an important role. Second, TPL has been highly successful in recruiting and training some of the best insurance executives in the PRC. With an emphasis on academic qualifications and experience, TPL is one of the best managed insurance companies in the country. TPL also has an outstanding sales team for all product ranges. Finally, TPL has put in place a corporate structure and internal control system which is based on international standards and best practices. Such an organization allows TPL to be efficiently run while conforming with requisite legal/regulatory guidelines.

General Insurance

TPI

Since resuming operations in December 2001, TPI has laid down a solid foundation in the PRC. With headquarters in Shenzhen, TPI has opened another branch office in Shenzhen and three branches in Beijing, Shanghai and Guangzhou. The general insurance business in these areas has grown rapidly. TPI's premium income for the year amounted to HK\$235.69 million (2001: HK\$0.20 million), which surpassed the Group's annual premium income targets.

As with TPL, TPI experienced net losses during its initial year of operation. As with all start-up general insurers, TPI provided for start-up costs in 2002 and recorded a loss of HK\$95.58 million (2001: HK\$11.48 million). The loss attributable to the Group for the year was HK\$29.63 million (2001: HK\$2.56 million).

Assets Management

CIGAML

The Company acquired all of the issued capital of CIGAML in July 2002. Total revenue of CIGAML attributable to the Group from the date of acquisition to the end of the year amounted to HK\$35.40 million. Net profit attributable to the Group during this period amounted to HK\$14.96 million. HK\$27.32 million, or 76.5% of the total revenue, was derived from management fees and performance bonus fees derived from the provision of asset management services. HK\$7.79 million, or 21.8% of the total revenue, was interest income derived from investments in fixed interest rate securities. The assets under the management of CIGAML amounted to HK\$3,526.72 million as at 31 December 2002.

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INVESTMENT PORTFOLIO AND INVESTMENT INCOME

The total investment portfolio held as at 31 December 2002 amounted to HK\$4,750.91 million, which represented 76.4% of the total assets of the Group. The composition of the investment portfolio was as follows:

	At 31 December 2002		At 31 December 2001	
	HK\$million	% of Total	HK\$million	% of Total
Bonds & Fixed Income Securities	2,283.15	48.1	1,206.38	36.8
Cash & Bank Deposits	1,844.05	38.8	1,464.21	44.6
Listed Equities	220.26	4.6	207.19	6.3
Listed Unit Trusts	68.76	1.5	17.86	0.6
Investment Properties	110.36	2.3	115.27	3.5
Interest in Associates	188.25	4.0	217.56	6.6
Unlisted Equities	11.22	0.2	9.68	0.3
Loan	24.86	0.5	43.38	1.3
Total	<u>4,750.91</u>	<u>100.0</u>	<u>3,281.53</u>	<u>100.0</u>

By business segment At 31 December 2002

	Reinsurance	Life Insurance	Asset Management	Insurance Intermediaries	Unallocated	Total
	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million
Bonds & Fixed Income Securities	1,093.83	831.03	161.17	0.00	197.12	2,283.15
Cash & Bank Deposits	698.73*	801.26	72.54	19.25	252.27	1,844.05
Listed Equities	176.17	0.00	1.14	8.50	34.45	220.26
Listed Unit Trusts	17.97	50.79	0.00	0.00	0.00	68.76
Investment Properties	110.36	0.00	0.00	0.00	0.00	110.36
Interest in Associates	0.00	0.00	0.00	6.48	181.77	188.25
Unlisted Equities	11.22	0.00	0.00	0.00	0.00	11.22
Loan	24.86	0.00	0.00	0.00	0.00	24.86
Total	<u>2,133.14</u>	<u>1,683.08</u>	<u>234.85</u>	<u>34.23</u>	<u>665.61</u>	<u>4,750.91</u>



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During the year, total investment income, including other revenue and other net income, amounted to HK\$94.39 million (2001: HK\$313.31 million). The decrease of 69.9% was due to an exceptional gain on disposal of unlisted securities for HK\$210.33 million which took place in the previous year. The prudent investment strategy adopted by the Group provides steady cash flows and has proven to be a sound policy, especially given the unfavourable and uncertain investment climate in today's capital markets.

* There were pledged deposits at banks amounting to HK\$65.56 million (2001: HK\$49.42 million) as lien for letters of credit issued to certain ceding companies to stand for the unearned premium reserve and/or outstanding loss reserve under the terms of certain assumed reinsurance contracts. Included in the amount of deposits pledged with banks is also a letter of credit for STG2.09 million issued to the Corporation of Lloyd's to back up CIRE's investment in a corporate vehicle specially established to participate in a Lloyd's Underwriting Syndicate solely for the underwriting years of 2002 and 2003.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank deposits as at 31 December 2002 amounted to HK\$1,844.05 million (2001: HK\$1,464.21 million). The increase of 25.9% in the cash position was mainly due to increases in reinsurance premium and life insurance premium collected by CIRE and TPL respectively. There was no bank borrowing during the year except for certain temporary bank overdrafts for trivial amounts.

CAPITAL STRUCTURE

During the year the Company issued 52,959,000 new shares (2001: 378,624,592 shares). 51,620,000 new shares were issued for consideration other than cash. A total number of 1,339,000 new shares were issued for cash under the Company's share option scheme. Net proceeds received for shares issued for cash in aggregate amounted to HK\$1.45 million (2001: HK\$683.30 million).

USE OF PROCEEDS FROM NEW SHARES ISSUED FOR CASH

During the year, the Company applied HK\$201.62 million out of the proceeds from new shares issued for cash in prior years as part of the consideration for acquiring all the issued capital in CIGAML.

STAFF AND STAFF REMUNERATION

As at 31 December 2002, the Group had a total of 919 employees (2001: 372), an increase of 547 employees. Total remuneration (other than directors' remuneration but including staff bonuses) amounted to HK\$95.13 million (2001: HK\$14.55 million), an increase of 553.8%. Bonuses are linked to both the performance of the Group as well as individual performance.

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MAJOR EVENTS DURING THE YEAR

Pursuant to the Reorganisation and Share Transfer Agreement made among the Company, CIHC and TPI dated 26 November 2001, the Company has agreed that on CIHC's instruction, it will, together with CIHC, transfer and/or procure the Designated Subsidiary to transfer the SII to the Strategic Investor as CIHC considers appropriate.

On 26 March 2002, the Company and CIHC as vendors and ICBC (Asia) as purchaser entered into a sale and purchase agreement for the purpose of transfer of the SII as contemplated by the Reorganisation and Share Transfer Agreement.

Completion took place on 20 September 2002. After completion, the Company still holds a 30.05% equity interest in TPI.

On 8 July 2002, the Company entered into a sale and purchase agreement with CIHK, pursuant to which the Company agreed to acquire all of the issued shares of CIGAML for a total consideration of HK\$403,200,000. The consideration would be satisfied on completion by (a) a cash payment of HK\$201,623,900; and (b) the issuance and allotment of 51,620,000 new shares of HK\$0.05 each of the Company at a price of HK\$3.905 per share to CIHK credited as fully paid.

Completion took place on 9 September 2002.

CONTINGENT LIABILITIES

A claim has been made by the liquidator of an Australian reinsurance company against CIRE in relation to a commutation payment of US\$3.00 million received on a reinsurance claim. The liquidator alleges that the payment was either an unfair preference or an uncommercial transaction within the meaning of Australian insolvency law. Based on the legal opinion given by an Australia-based law firm on information currently available to them, the directors consider that CIRE has good prospects of successfully defending the claim. No provision has therefore been made.

The proceedings to recover the payment remain at an early stage and the Australia-based law firm is continuing to investigate the basis for the claim and will provide advice on relevant developments.



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EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the Balance Sheet date, TPL received approvals from the CIRC to establish ten new full branches in large cities in the PRC, including Nanjing (Jiangsu Province), Hangzhou (Zhejiang Province), Shijiazhuang (Hubei Province), Shenyang/Dalian (Liaoning Province) and Shenzhen. TPL also obtained regulatory approvals to establish ten new sub-branches in smaller cities, such as Foshan and Zhuhai in Guangdong Province and Deyang and Leshan in Sichuan Province.

Subsequent to the Balance Sheet date, TPI has received approvals from the CIRC to establish eight full branches in large cities in the PRC and nine sub-branches in smaller cities in Guangdong Province.

Both TPL and TPI are planning to open the respective branches and sub-branches over the next several months.