MANAGEMENT REVIEW AND ANALYSIS

OPERATIONAL REVIEW

For the twelve months ended 31 December 2003, total turnover for the Group was HK$4,329.96 million (2002 restated: HK$2,769.77 million), representing an increase of 56.3% compared with last year. Profit from operations increased to HK$162.49 million (2002 restated: HK$135.69 million), representing an increase of 19.8% over that of last year. Profit attributable to shareholders of the Group amounted to HK$140.75 million (2002 restated: HK$180.39 million), representing a decrease of 22.0% compared with last year. Basic earnings per share was HK10.6 cents (2002 restated: HK14.0 cents) and diluted earnings per share was HK10.5 cents (2002 restated: HK13.9 cents).

The increase in total turnover in 2003 was mainly due to the stability of reinsurance premium income at CIRe and the strong growth in life insurance premium income in Mainland China at TPL. The fall in profits attributable to shareholders was primarily due to the expected net operating losses at TPL and TPI. These losses are due to the fact that the Group's and its associate's rapid expansion of life and general insurance operations in Mainland China are still in their initial stages of development and the additional expenses incurred in establishing new branches and sub-branches, which are in-line with expectations. Lower underwriting profit at CIRe also contributed to the decrease in profits attributable to shareholders. CIRe experienced several unexpected and unusual reinsurance losses in 2003, such as from SARS. There was a write back of prior years' overprovided tax of HK$39.96 million in 2002 which has not repeated in 2003. Increased investment income from strong equities markets worldwide in year 2003 bolstered the Group's overall operations and partially offset some of the operational losses.

Reinsurance Underwriting - CIRe

During 2003, the market conditions for reinsurance in the world continued to be favorable with firm pricing conditions and an absence of irrational competition. Over the past several years of upswing in the reinsurance cycle, CIRe has taken advantage of the positive environment in the global reinsurance industry to re-evaluate and re-underwrite its reinsurance contracts with a more intense focus on underwriting profitability and risk-control of catastrophe exposures. As such, the top-line, revenue growth of CIRe for the year has been carefully managed, as senior management has prioritized "profitable growth". CIRe believes that such dedication to core profitability and risk management has not only benefited bottom-line results in 2003, but will lay the foundation for future profits as well.

While, overall, the reinsurance environment must still be termed a "hard" market, the global reinsurance industry is showing signs of peaking. Terms and conditions of most reinsurance contracts, after experiencing sharp increases in premium or tightening of commission terms and coverage over the past two years, without encountering any major losses or disasters, are beginning to show signs of softening. This is especially the case in the property damage classes of insurance. In the casualty and liability insurance classes, the reinsurance pricing remains high. Proportional reinsurance, which is a major reinsurance product underwritten by CIRe for clients in Asia, is still subject to stringent reinsurance underwriting criteria. In light of the cyclical nature of the reinsurance business, CIRe believes that its intense focus on profitability is justified and positions the company strongly for the inevitable softening of reinsurance pricing in the years to come. In 2003, CIRe was rated A- by Fitch, and maintained its A- ratings at both Standard & Poor's and A.M. Best. Such strong credit ratings from internationally-recognized credit rating agencies further bolsters CIRe's operations and demonstrates confidence in its strategy.

During 2003, CIRe adopted the annual accounting policy for reporting its reinsurance underwriting revenue and the results of its non-life reinsurance business. Previously, CIRe had used the 3-year fund accounting policy. Under the new annual accounting policy and after restating the prior years' underwriting results on the new policy, CIRe's overall life and non-life gross reinsurance premium income written for the year amounted to HK$1,179.62 million (2002 restated: HK$1,170.64 million), representing an increase of 0.8%.

The underwriting results for the year was HK$43.64 million, which was a 71.2% decrease compared to the last year (2002 restated: HK$151.31 million). This underwriting performance was primarily the result of SARS and several other unexpected events. In the core Asian markets of CIRe, the unprecedented outbreak of SARS during the first half of 2003 caused major disruptions in the economies of Hong Kong, Singapore and several major cities in China. The economic toll from this contagion resulted in reinsurance claims for CIRe, such as business interruption from hotels and employees' compensation at medical institutions. Remedial measures have been undertaken to tighten policy wordings and conditions in CIRe's reinsurance contracts, which will eliminate or significantly reduce the potential reinsurance losses in case of any recurrence of SARS or any other infectious diseases. CIRe was also exposed to several other tragedies in 2003. CIRe received liability reinsurance claims from the tragic bus accident at Tuen Mun Highway, which resulted in approximately 40 deaths and injuries in July 2003. In September 2003, the worst typhoon in the history of South Korea struck, resulting in approximately US$600.00 million in insured losses to the entire market. For these unexpected loss events, CIRe absorbed about HK$82.70 million to its own account after deducting recoveries from retrocession agreements. CIRe's combined ratio, which combines the ratio of net underwriting commissions and expenses to net written premium and the ratio of net claims incurred to net earned premium, was 96.7% for the year, versus 84.1% in the last year.

CIRe's geographical distribution of its reinsurance business was still predominantly in the Greater China region, with most premiums from Hong Kong and Macau (34.5%, 2002 restated: 40.3%) and China excluding HK/Macau (11.5%, 2002 restated: 11.0%). Asian markets overall accounted for 77.6% (2002 restated: 80.3%) of total premium income. Over the past year, CIRe has further developed and expanded its business in Mainland China. Senior management is committed to continuing its expansion in the PRC, but only if it is profitable to do so. Life reinsurance premium is still a small percentage of CIRe's overall business, accounting for less than 1% of total premium income. The life reinsurance business, however, remains profitable.

CIRe's investment performance increased strongly in 2003 as a result of the sharp rebound in equities markets worldwide, particularly during the second half of the year. Other revenue and other net income/(loss) reached HK$190.07 million, versus HK$48.51 million last year, representing an increase of 291.8%.

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The profit contribution from the reinsurance underwriting operations attributable to the Group for the year was HK$234.03 million, which is a 17.2% increase over that of the last year (2002 restated: HK$199.65 million).

Insurance Intermediaries - SINO-RE

SINO-RE maintained stable reinsurance brokerage income in 2003. However, due to the restructuring of several core reinsurance programs by major ceding clients, the brokerage turnover of SINO-RE decreased slightly by 4.3% to HK$14.66 million (2002: HK$15.32 million).

SINO-RE's major source of business was from placing reinsurance (proportional, non-proportional and facultative facilities) for direct insurance companies operating in Hong Kong, Macau, Mainland China, Singapore and other areas.

Despite a modest decrease in revenue, SINO-RE's profits attributable to the Group increased 16.0% to HK$11.60 million (2002: HK$10.00 million). This strong bottom-line result was primarily due to improved investment performance.

Insurance Operations in Mainland China

Life Insurance Business - TPL

2003 was the second full-year of operations for TPL since the company resumed its life insurance business in Mainland China. With a focus on developing and improving on its core operations, the senior management of TPL made significant inroads during the year in the areas of human resources, investments, risk management and other operational areas. By doing so, TPL has been recognized as having one of the best and most professional operations in the PRC insurance industry.

TPL continued its expansion into the PRC life insurance markets by opening 10 new branches in 2003. The location of the branches were carefully chosen to best position TPL in the most wealthy and populous provinces in China, and are as follows: Shijiazhuang, Zhengzhou, Nanjing, Jinan, Qingdao, Hangzhou, Ningbo, Shenyang, Dalian and Shenzhen. With these new branches, TPL now has 14 branches throughout the PRC. With this strong branch network, TPL was able to increase its life insurance market share in Mainland China to 1.1%, ranking the company seventh in the entire domestic industry.

In 2003, TPL successfully increased its shareholder capital from RMB500 million to RMB1 billion, funded by its existing shareholders. Total assets of TPL increased to HK$5,129.24 million, an increase of 110.7% over that of 2002 (2002: HK$2,434.94 million). The increased capitalization of TPL further bolstered its solvency and liquidity position. During the year, TPL was rated BBB+ by Fitch, and TPL management fully intends to build upon this strong, initial credit rating and to continue pursuing prudent investment and capital management strategies.

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During the year, total life insurance premium income written by TPL amounted to HK$3,079.50 million, almost doubling that of 2002 (2002: HK$1,556.49 million). Of the total life insurance premium income written, individual life insurance through agency sales accounted for HK$257.21 million (2002: HK$77.62 million), group life insurance HK$555.80 million (2002: HK$381.05 million) and individual life insurance through bancassurance HK$2,266.49 million (2002: HK$1,097.82 million). Among TPL's 4 branches which were in operation in the beginning of 2003 (Shanghai, Beijing, Chengdu and Guangzhou), the Shanghai branch recorded the highest premium income of HK$1,134.87 million, representing a 5.2% share of the Shanghai market and making TPL the fifth largest life insurance company in Shanghai.

TPL's strong strategic relationships with Fortis and ICBC continued to be key drivers of its growth, particularly in the area of bancassurance. Bancassurance continues to be an important channel for insurance distribution in China, and the expertise of Fortis and ICBC have been invaluable in making the company a leader in this market. TPL also continues to emphasize hiring and training the best people for its leadership positions. The personnel of TPL have productivity measures which are two or three times higher than the industry norm.

TPL's net loss attributable to the Group for the year was HK$91.25 million, higher than that of 2002 (2002: HK$54.54 million). The increase in losses was expected, and was due to the continued expansion of TPL's operations and the opening of new branches. 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.

General Insurance - TPI

Also in its second full-year of operations in 2003, TPI continued to grow rapidly during the year. TPI's premium income for the year amounted to HK$495.49 million, representing a 111.0% increase over last year (2002: HK$234.82 million). TPI continued its expansion in the PRC general insurance markets by opening 8 new branches in 2003. The location of these branches are as follows: Wuhan, Dalian, Nanjing, Hangzhou, Chengdu, Jinan, Zhengzhou and Tianjin.

As with TPL, TPI experienced net losses in year 2003. As with all start-up general insurers, TPI incurred extra costs during the initial years, particularly for its new branch openings, and recorded a loss of HK$188.82 million (2002: HK$89.70 million). The loss attributable to the Group for the year was HK$60.72 million (2002: HK$29.63 million).

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Assets Management - CIGAML

The management fee of CIGAML for the year amounted to HK$56.17 million (2002: HK$27.32 million from July 2002, the date of acquisition to the end of the year). During the year, there was interest income of HK$15.41 million (2002: HK$7.79 million from July 2002, the date of acquisition to the end of the year) derived from investments in fixed interest rate securities. The assets under the management of CIGAML amounted to HK$3,965.12 million as at 31 December 2003 (2002: HK$3,526.72 million). CIGAML's profits attributable to the Group for the year was HK$47.35 million (2002: HK$14.84 million from July 2002, the date of acquisition to the end of the year).

Investment Portfolio and Investment Income

The total investment portfolio held as at 31 December 2003 amounted to HK$9,441.69 million, which represented 88.4% of the total assets of the Group. The composition of the investment portfolio was as follows:

	At 31 December 2003	**% of**	At 31 December 2002	% of
	HK$ million	**Total**	*HK$ million*	Total
Bonds & fixed income securities	**5,758.19**	**61.0**	2,283.15	43.9
Cash & bank deposits	**2,393.22**	**25.3**	1,844.05	35.5
Listed equities	**520.84**	**5.5**	220.26	4.3
Listed mutual funds and unit trusts	**348.41**	**3.7**	68.76	1.3
Securities purchased under resale agreement	**148.28**	**1.6**	448.80	8.6
Investment properties	**104.84**	**1.1**	110.36	2.1
Interest in associates	**127.68**	**1.4**	188.25	3.6
Unlisted equities	**11.23**	**0.1**	11.22	0.2
Loan	**29.00**	**0.3**	24.86	0.5
Total	**9,441.69**	**100.0**	5,199.71	100.0

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By business segment
At 31 December 2003

	Reinsurance *HK$ million*	**Life insurance** *HK$ million*	**Asset management** *HK$ million*	**Insurance intermediaries** *HK$ million*	**Unallocated** *HK$ million*	**Total** *HK$ million*
Bonds & fixed income securities	1,500.63	2,862.60	1,378.42	—	16.54	5,758.19
Cash & bank deposits	* 790.88	** 1,380.26	12.25	37.74	172.09	2,393.22
Listed equities	180.90	—	195.68	2.51	141.75	520.84
Listed mutual funds and unit trusts	17.95	330.46	—	—	—	348.41
Securities purchased under resale agreement	—	148.28	—	—	—	148.28
Investment properties	104.84	—	—	—	—	104.84
Interest in associates	—	—	—	6.63	121.05	127.68
Unlisted equities	11.23	—	—	—	—	11.23
Loan	24.71	4.29	—	—	—	29.00
Total	2,631.14	4,725.89	1,586.35	46.88	451.43	9,441.69

During the year, total investment income, including other revenue and other net income, amounted to HK$395.56 million (2002: HK$94.39 million), a substantial increase of 319.1% compared to last year. The increase was due to the sharp rebound in equities markets worldwide. Despite the strong performance in equities in year 2003, the Group intends to continue applying a conservative and prudent investment strategy. The Group will continue to have most of its investments in fixed income securities which are investment grade and which provide for steady cash flows.

* There were pledged deposits at bank amounting to HK$70.60 million (2002: HK$65.56 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.

** A subsidiary of the Group has placed HK$197,007,000 (2002: HK$100,162,000) with banks as a capital guarantee fund, pursuant to the relevant PRC insurance rules and regulations. The fund can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiary cannot meet the statutory solvency requirements or goes into liquidation.

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Liquidity and Financial Resources

The Group's cash and bank deposits as at 31 December 2003 amounted to HK$2,393.22 million (2002: HK$1,844.05 million). The increase of 29.8% in the cash position was mainly due to the increase in paid-up capital of TPL as well as increases in reinsurance premium and life insurance premium collected by CIRe and TPL, respectively. There was no bank borrowings during the year except for securities sold under repurchase agreement and certain temporary bank overdrafts for trivial amounts.

Capital Structure

During the year, the Company issued 2,802,000 new shares (2002: 1,339,000 shares) for cash under the Company's staff share option scheme (the Company issued 51,620,000 shares for consideration other than cash in year 2002). Net proceeds received for shares issued for cash in aggregate amounted to HK$3.46 million (2002: HK$1.45 million).

As at 31 December 2003, total capital and reserves of the Group represented 25.1% of the total assets of the Group (2002 restated: 40.1%). The interest-bearing notes represented 12.6% of the total assets of the Group (2002: Nil).

Use of Proceeds from New Shares Issued for Cash

The balance of proceeds from new shares issued for cash in prior years were retained by the Company as operating capital.

Staff and Staff Remuneration

As at December 2003, the Group had a total of 2,526 employees (2002: 919 employees), an increase of 1,607 employees. Total remuneration (other than directors' remuneration but including staff bonuses) amounted to HK$170.15 million (2002: HK$102.14 million), an increase of 66.6%. Bonuses are linked to both the performance of the Group as well as individual performance.

Major Event During the Year

In November, CIIH (BVI) launched a 10-year, US$175.00 million international senior bond offering. The bonds pay a fixed-interest coupon annually of 5.8% which was determined at a spread of US Treasuries plus 1.57%. The issue price of the bonds was 99.251 per cent., a discount of 0.749%. Net proceeds received amounted to US$172.75 million. CIIH intends to use the bond proceeds gradually over the next few years to fund and support TPL and TPI in Mainland China.

As part of the debt raising exercise, CIIH was rated BBB- by both Standard & Poor's and Fitch. CIRe was rated A- by Fitch, and maintained its A- ratings at both Standard & Poor's and A.M. Best. TPL was rated BBB+ by Fitch.

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 an unfair preference within the meaning of Australian insolvency law. Based on an initial legal opinion given by an Australia-based law firm (on information then available to those lawyers) the Directors have considered that CIRe has good prospects of successfully defending the claim. Therefore no provision has been made. Our lawyers are in the course of gathering further information about the claim and will provide an up to date legal opinion in due course.