

INDUSTRY OVERVIEW

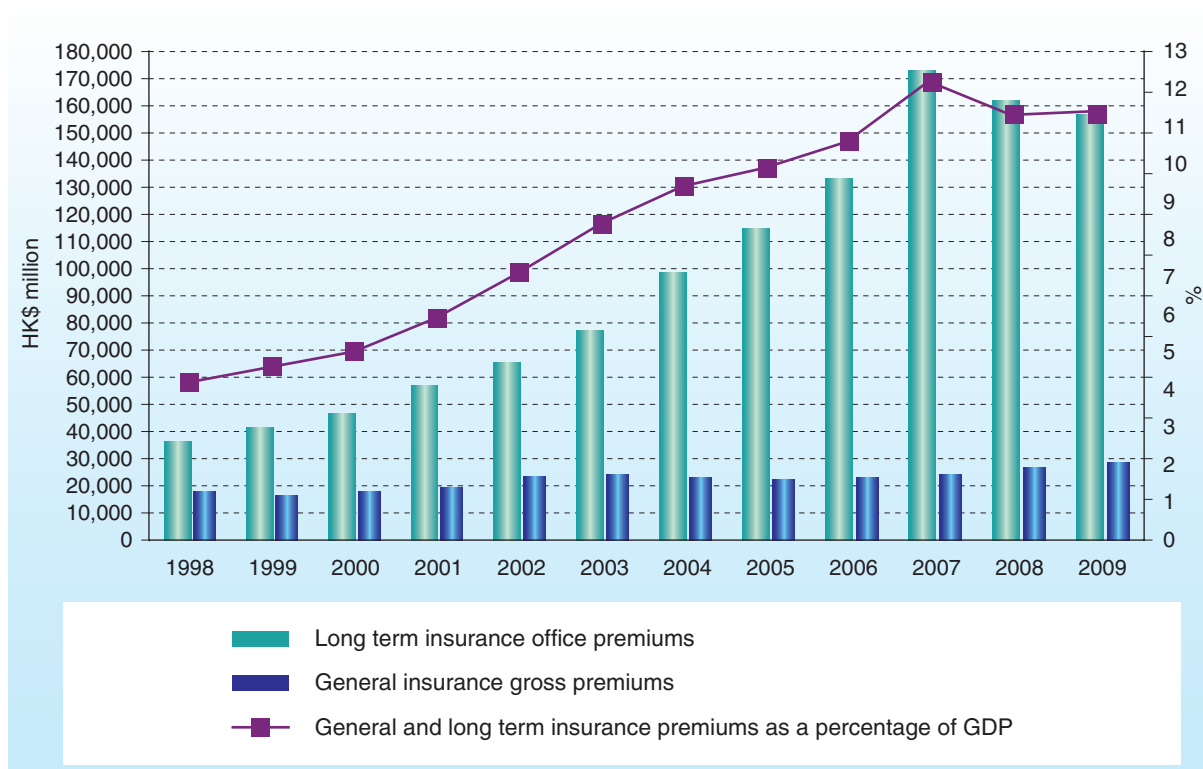
This section contains information and statistics relating to the industry in which we operate. We have derived such information and data partly from publicly available government official sources which have not been independently verified by us, the Sponsor, the Joint Lead Managers, the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information. We make no representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied on. We have taken such care as we consider reasonable in the reproduction and extraction of such information.

INSURANCE INDUSTRY IN HONG KONG

The insurance industry is one of the key financial services in Hong Kong. According to a press release published by the OCI dated 15 March 2010 and the website of the Census and Statistics Department of Hong Kong, the total general and long term insurance premiums was HK\$185.7 billion in 2009, representing approximately 11.4% of the GDP of Hong Kong.

The insurance industry consists of two sectors, namely long term insurance and general insurance. In 2009, the long term insurance sector accounted for about 84.6% of the total premium income, while the general insurance sector took up the remaining 15.4%.

The following chart illustrates the trends of (i) long term insurance office premiums; (ii) general insurance gross premiums; and (iii) general and long term insurance premiums as a percentage of GDP, between 1998 and 2009:



Source: Hong Kong Insurance Business Statistics and annual and quarterly reports published by the OCI

INDUSTRY OVERVIEW

The above diagram demonstrates that general and long term insurance premiums as a percentage of GDP had grown gradually between 1998 and 2007 and was more than doubled in 2007 as compared to 1998. In 2008, such percentage fell to approximately 11.3% from 12.2% in 2007 and then rebounded slightly to 11.4% in 2009. While general insurance gross premiums had fluctuated moderately between 1998 and 2009, and save for 2008 and 2009, long term insurance office premiums had generally been growing at an increasing rate during the same period.

Within the long term insurance business, there are basically four main sub-sectors, namely individual life business, group life business, retirement scheme and other business. Other business includes annuity, permanent health and capital redemption business. Individual life business was attributable to 94.2% and 82.0% of the long term insurance business in terms of number of policies and office premiums respectively in 2009 as stated in a press release published by the OCI dated 15 March 2010.

Individual life business consists of investment-linked business and non-investment-linked business, which accounted for approximately 29.2% and 70.8% of the total office premiums of individual life in-force business in 2009 respectively, as stated in the Hong Kong Insurance Business Statistics 2009 published by the OCI. ILAS is classified as one of the investment-linked businesses. For the four years ended 31 December 2006, 2007, 2008 and 2009, the annual growth rates in terms of office premiums for investment-linked business were 42.7%, 73.7% and -22.8% and 15.7% respectively, as compared with 5.0%, 7.4%, 9.2% and 10.7% for non-investment-linked business during the corresponding years in respect of individual life in-force business.

Insurance products are developed by authorised insurers, which are authorised by the OCI under the ICO. As at 31 December 2009, there are a total of 1,710 authorised insurers in Hong Kong. The following table set out the number of authorised insurers conducting business in Hong Kong as at 31 December 2007, 2008 and 2009:

Authorised insurers as at 31 December 2007, 2008 and 2009

	As at 31 December		
	2007	2008	2009
Long term insurance business	233	231	231
— Local	87	86	86
— Overseas	146	145	145
General insurance business	1,542	1,533	1,479
— Local	909	911	900
— Overseas	633	622	579

Source: Website of the OCI (www.oci.gov.hk)

INDUSTRY OVERVIEW

As illustrated in the table above, the number of authorised insurers in the long term insurance business had remained stable between 2007 and 2009 for both local and overseas insurers. The general insurance business had experienced gradual decline in the number of authorised insurers between 2007 and 2009, which was mainly attributable to the falling number of overseas insurers during the said period.

Insurance products developed by the authorised insurers can be marketed directly by its marketing arm or through insurance intermediaries such as insurance agents and brokers. An insurance agent represents a person who holds himself out to advise on or arrange contracts of insurance in or from Hong Kong as an agent or sub-agent of one or more authorised insurers. An appointed insurance agent shall not represent more than four insurers, of whom no more than two shall be long term business insurers. As such, an insurance agent can only arrange contracts of insurance developed by limited number of authorised insurers.

An insurance broker represents a person who carries on the business of negotiating or arranging contracts of insurance in or from Hong Kong as the agent of the policyholder or potential policyholder or advising on matters related to insurance. An insurance broker provides advice to the insuring public and helps them analyse their insurance needs and chooses the suitable insurance products. Therefore, an insurance broker can arrange a variety of contracts of insurance.

The primary difference between insurance agents and insurance brokers is that insurance agents represent Product Issuers to promote their insurance products to the customers, whereas insurance brokers represent customers and provide them with advise on insurance products offered by one or more Product Issuers.

Under the current operation of our Group and the Consultants, we negotiate and arrange a variety of contracts of insurance and MPF schemes in Hong Kong as the agent of the policyholders and potential policyholders, and advise on matters related to insurance, and accordingly none of our Group and the Consultants is the appointed insurance agent of the authorised insurers.

In respect of insurance brokers, they have been brought under the regulation of their own professional bodies which are approved by the IA. A person can be authorised as an insurance broker if he is a fit and proper person and satisfies certain minimum requirements including (i) requirement on capital and net assets; (ii) requirement on qualifications and experience; (iii) requirement for professional indemnity insurance; (iv) requirement to keep separate customer accounts; and (v) requirement to keep other proper books and records. The insurance broker can be either authorised by the IA or registered with any one of the two approved bodies of insurance brokers, namely PIBA and HKCIB.

INDUSTRY OVERVIEW

Number of authorised insurance brokers, their chief executives and consultants as at 30 April 2010

The following table sets out the number of authorised insurance brokers, their chief executives and consultants in Hong Kong as at 30 April 2010:

Type of insurance business	Number of insurance brokers by virtue of their membership with		Numbers of chief executives and consultants
	HKCIB	PIBA	
General	24	25	175
Long term (excluding linked long term)	1	2	3
(including linked long term)	33	25	440
Both general and long term (excluding linked long term)	54	63	892
(including linked long term) ⁽¹⁾	133	191	6,186
Total	<u>245</u>	<u>306</u>	<u>7,696</u>

Source: Websites of HKCIB (www.hkcib.org) and PIBA (www.piba.org.hk)

Note:

(1) Our Group belongs to this category.

Competitive advantages of an independent insurance broker

(i) Independence

Being an independent insurance broker, he/she should act independently for the customers' best interest and try to avoid conflicts of interest. Disconnection from authorised insurers may help an independent insurance broker to advise his/her customers objectively and to assist the customers in selecting suitable products to achieve their financial needs.

(ii) Professionalism

An independent insurance broker may hold various licences with different regulatory bodies in Hong Kong. An independent insurance broker is required to be registered as an insurance broker with the IA or other self-regulatory bodies approved by the IA to give advice to policyholders or potential policyholders on any class of insurance products. In addition, an independent broker may register as a MPF intermediary with the MPFA to give advice on MPF schemes. These licences to certain extent provide an evidence of professionalism in the areas where an independent insurance broker offers his/her service. Furthermore, an independent broker is required to fulfill the annual continuous and professional training requirements to maintain his/her professional competence.

(iii) Tailor-made service

Customers' financial needs are different and may be difficult for a standardised solution on product to satisfy all customers. As such, an independent insurance broker can access different authorised insurers for different products to fulfill customers' needs with a customised solution which takes into consideration their risk and return requirements.

INDUSTRY OVERVIEW

(iv) Variety of products

In order to satisfy a customer's specific needs, an independent insurance broker should recommend and explain various alternatives to his/her customer after analysing a variety of plans and products. Our Directors consider that the independent insurance broker is able to act with a high level of independence as a result of his/her ability to access various authorised insurers which provide a wide range of products for the customers. Intuitively, customers' needs may better be served as a result of the much wider variety of products available.

GENERAL OVERVIEW OF ILAS BUSINESS IN HONG KONG

Development of ILAS in Hong Kong

Life insurance started some 400 years ago. It was created to satisfy the need for financial security. Over the years, existing insurance products were enhanced and new insurance products were developed to satisfy the market's evolving requirements.

ILAS is derived from traditional life insurance policy, and its value is generally linked to the performance of its underlying investments. Generally, ILAS is issued by offshore financial institutions, usually insurance companies, for individuals' tax and investment purposes.

ILAS gained popularity over the past few years because of the increasing demand of Hong Kong customers for higher returns on the insurance policies and the increasing familiarity of Hong Kong customers to investment funds especially with the introduction of the MPF scheme in 2000. However, in order to protect policyholders or potential policyholders from assertive selling of life insurance intermediaries, the Life Insurance Council under the Hong Kong Federation of Insurers launched a scheme which allows a policyholder or potential policyholder to withdraw the policy unconditionally within a cooling-off period, subject to a market value adjustment, with effect from July 1996. Cooling-off period means a time period which provides policyholders with the time to understand carefully all the information given in relation to a policy and a policyholder may serve a written notice to cancel the policy for a refund of the paid premium less any market value adjustment. With effect from 1 February 2010, cooling-off period is 21 days after the delivery of the policy or issue of a "Notice" to the policyholder or the policyholder's representative, whichever is earlier. (Note: the Notice should inform the policyholder of the availability of the policy and the expiry date of the cooling-off period. The Notice should remind the policyholder that he/she has the right to re-think his/her decision to purchase the life insurance product and to obtain a refund of premium paid if the policy is cancelled within the cooling-off period. The Notice should also remind the policyholder to contact the customer service department of the insurer directly (service hotline number should be provided) if he/she does not receive the policy contract within 9 days from the issue date of the Notice.) In practice, customers can choose to cancel a policy within the cooling off period by serving the notice directly to the relevant insurance company or through their insurance brokers. No revenue will be recognised by our Group if any customer withdraws his/her policy within the cooling-off period. Therefore, cooling-off applications will have no impact on our Group's revenue. Given the lack of impact of withdrawal on our revenue, our Group does not gather any statistics regarding withdrawal within the cooling-off period.

In Hong Kong, advertisements, invitations or other documents which contain an invitation to the public to acquire an interest in or participate in, or offer to acquire an interest in or participate in ILAS require SFC's approval before they can be marketed or sold to the public in Hong Kong. Issuers of ILAS and intermediaries who sell ILAS are regulated by the IA or other self-regulatory bodies approved by the IA (such as PIBA and HKCIB) but are not required to be licensed by the SFC.

INDUSTRY OVERVIEW

Types of ILAS

In general, ILAS can be categorised as either regular-savings or lump-sum savings, which are differentiated by its premium structure. Regular-savings ILAS are financed by regular premium contribution, the amount of which can be varied according to the customers' needs. The contributions made by the customers would be invested in a wide range of investment funds which are managed by either the insurance companies or other fund managers. The underlying portfolio of ILAS is constructed, and can be adjusted, according to the specific needs and investment strategies of the customers. For Lump-sum ILAS, the terms and conditions are similar to Regular-savings ILAS, except for the one-off contribution payment which is made by a whole lump-sum at the effective date of the Lump-sum ILAS.

Independent insurance broker carrying on business in ILAS industry

The carrying on of insurance business (including the sale of ILAS) and insurance intermediaries are regulated by the ICO. An independent insurance broker who carries on business in ILAS industry is required to be either authorised by the IA or become a member of one of the two approved broker bodies, namely HKCIB and PIBA. Being an authorised insurance broker, the independent insurance broker can liaise with authorised insurers in Hong Kong for adding their products in its alternative portfolio. The independent insurance broker could then select suitable products from such portfolio which are considered to be in the customers' best interests and in accordance with the customers' specific needs. The independent insurance broker is rewarded by receiving commission income from the authorised insurers for sale of their products. Our Directors believe that the independence of the independent insurance broker may be further enhanced when it establishes more relationships with other authorised insurers.

Moreover, pursuant to the SFC Circular, as a general rule, the SFC considers that insurance intermediaries who are promoting, offering or selling ILAS to the public (including giving advice to policyholders concerning their selection of the underlying funds) are neither obliged nor permitted to be licensed under the SFO. As a result, an insurance broker may arrange with his/her customers to purchase authorised ILAS without the need for registration as an investment adviser or an investment representative under the SFO. However, the advertisements, invitations or other documents which contain an invitation to the public to acquire an interest in or participate in, or offer to acquire an interest in or participate in ILAS require SFC's approval.

Popularity of ILAS in Hong Kong

Over the past decade, people have become more concerned about the maintenance of quality of living after retirement. The demand for ILAS has been increasing steadily since the Asian financial crisis in 1997. According to statistics extracted from the Hong Kong Insurance Business Statistics for 1998 and 2008 published by the OCI, notwithstanding the effects of the global financial crisis which brought the office premiums down by 41% in 2008 as shown in the table below, the office premiums of new ILAS business grew from approximately HK\$2.3 billion in 1998 to approximately HK\$35.7 billion in 2008, representing a CAGR of 31.8%.

Between 2004 and 2008, the office premiums of new ILAS business grew at a CAGR of 34.6% from approximately HK\$18.2 billion in 2004 to approximately HK\$35.7 billion in 2008. The office

INDUSTRY OVERVIEW

premiums of the Lump-sum ILAS and Regular-savings ILAS in 2004 were approximately HK\$14.5 billion and HK\$3.7 billion, and were HK\$26.6 billion and HK\$9.1 billion respectively in 2008. The CAGRs in office premiums for Lump-sum ILAS and Regular-savings ILAS were 35.4% and 32.5% respectively during the period from 2004 to 2008. The following table sets out the trend of office premiums of the Lump-sum ILAS and the Regular-savings ILAS in Hong Kong from 2004 to 2008:

Statistics of new ILAS business in Hong Kong from 2004 to 2008

<u>Unit: HK\$ million</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>CAGR</u>
Lump-sum ILAS	14,458.2	17,000.9	25,306.7	49,057.9	26,550.6	35.4%
Annual growth rate	not applicable	18%	49%	94%	(46%)	
Regular-savings ILAS	3,695.9	4,470.5	6,637.7	11,215.0	9,124.3	32.5%
Annual growth rate	not applicable	21%	48%	69%	(19%)	
Total	18,154.1	21,471.4	31,944.4	60,272.9	35,674.9	34.6%
Annual growth rate	not applicable	18%	49%	89%	(41%)	

Source: *Hong Kong Insurance Business Statistics 2004-2008 published by the OCI (www.oci.gov.hk)*

To the best knowledge of our Directors, it is estimated that the new ILAS business arranged by our Group on behalf of the Product Issuers accounted for approximately 7% of total new ILAS business in Hong Kong market in 2009 in terms of office premiums calculated from statistics published by OCI. Our Directors believe that ILAS has been gaining popularity in Hong Kong and is likely to be one of the fastest proliferating investment products in Hong Kong for the coming years.

The following are some of the factors that contribute to the continuous development of ILAS in Hong Kong. ILAS is considered as a top-up of MPF, which gives extra protection to the retirees. These factors are:

- (i) the launch of MPF coupled with massive promotion and education activities from the government to foster the awareness of financial planning;
- (ii) possible failure of MPF to meet the retirement needs as explained under the paragraph headed “MPF business” below; and
- (iii) ILAS is more flexible than MPF, in terms of fund choices, time horizons and amount of investments.

MPF BUSINESS

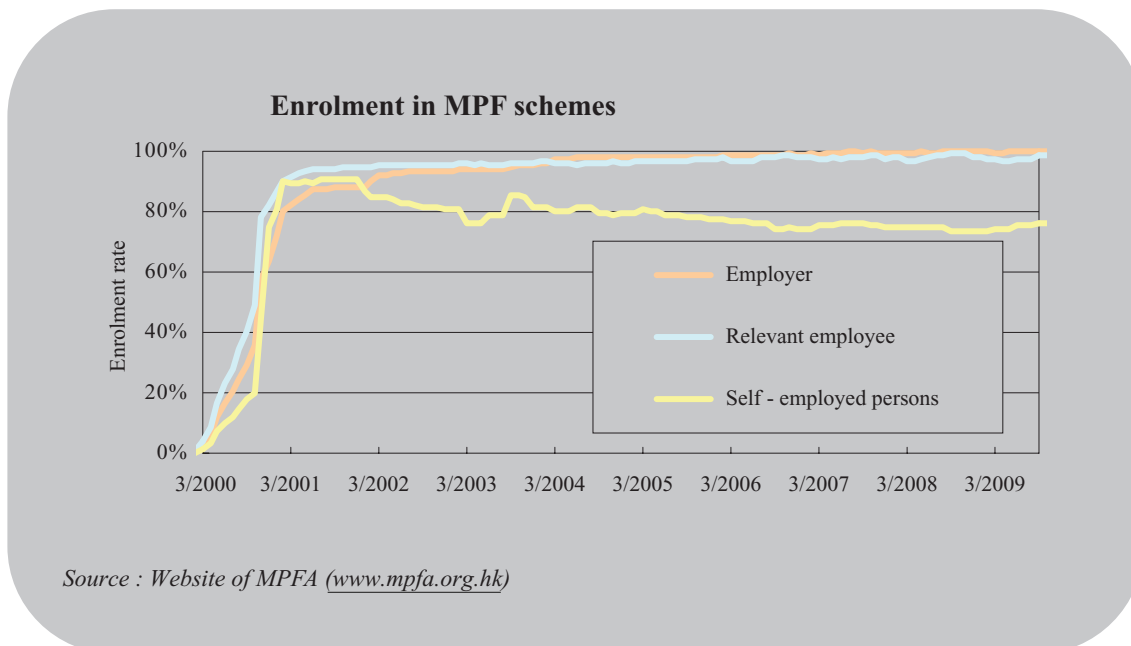
Development of MPF in Hong Kong

Before the implementation of the MPF system, only around one-third of the Hong Kong workforce had some form of retirement protection which included statutory pensions and provident funds for civil servants and school teachers, and retirement schemes set up by employers voluntarily for their employees. With the expectations of a rapidly ageing population in Hong Kong which the proportion of the population over the age of 65 rising from approximately 12% in 2004 to an expected 27% by 2033, the need for a more adequate means of retirement protection was imminent. The MPF system was launched in Hong Kong in December 2000 and has become part of the lives of most Hong Kong residents.

According to the Census and Statistics Department and returns submitted by the trustees to the MPFA, more than 80% of each of employers, relevant employees and self employed persons in

INDUSTRY OVERVIEW

Hong Kong has enrolled in MPF schemes by the first quarter of 2001. The enrollment rate of employers and relevant employees have gradually risen to close to 100% and remained so up to the first quarter of 2009, whereas the enrollment rate of self-employed persons fluctuated gently below 80% in 2009. The trend of the enrollment in MPF schemes is set out in the chart below:



Pursuant to the Mandatory Provident Fund Schemes (Amendment) Ordinance 2009 gazetted on 17 July 2009, it is proposed that employees will be allowed to transfer accrued benefits derived from their employees' mandatory contributions during their current employment from a contribution account under a registered scheme on a lump-sum basis to another MPF scheme of their own choice at least once per calendar year. We believe that when the new transfer policy comes into effect (which is expected to be in or around 2011), a substantial percentage of MPF benefits will become portable during trustees and thereby provides an opportunity for us to expand our presence in the MPF business.

The MPF market and product types

As extracted from the Mandatory Provident Fund Schemes Statistical Digest issued in December 2009 by the MPFA, the regulatory body of MPF, there were approximately 2.5 million participating members of the MPF schemes as at 31 December 2009 and the total contributions received in 2009 amounted to approximately HK\$43,850 million. The total net asset value of approved constituent funds of MPF schemes increased to approximately HK\$308,870 million as at 31 December 2009 from approximately HK\$202,407 million as at 31 December 2006, representing a CAGR growth of approximately 15.1%.

According to a Report on General Household Survey published by the Census and Statistics Department of Hong Kong for the third quarter of 2009, up to 71% of the employed population of Hong Kong is covered under the MPF schemes and 16% are covered under other retirement schemes, such as Civil Service Pension Scheme, and MPF exempted Occupational Retirement Schemes Ordinance schemes. Whereas domestic employees and employees who are aged above 65 or below 18

INDUSTRY OVERVIEW

are not required to join any local retirement scheme according to Hong Kong law. Only 2% of the employed population in Hong Kong is required to join MPF schemes but have not done so.

As at 31 January 2010, according to the MPFA website (www.mpfa.org.hk), 38 MPF schemes in the market which provided an aggregate of 365 constituent funds which comprised 6 fund types, namely, mixed assets fund, equity fund, MPF conservative fund, guaranteed fund, bond fund and money market fund and others.

Independent insurance broker carrying on business in the MPF industry

As at 31 December 2009, there were 27,350 registered MPF intermediaries, comprising 469 corporate intermediaries and 26,881 individual intermediaries, of which 20,662 individual intermediaries were permitted to advise on insurance policies or both insurance policies and securities. Approximately 68%, 30% and 2% of MPF individual intermediaries were from the insurance, banking and securities industries respectively.

The regulatory requirements in relation to the sale of MPF as an MPF intermediary are summarised in the section headed “Regulatory framework” in this prospectus. As an individual MPF broker registered with the MPFA, the carrying on of business of MPF is similar to that of an independent insurance broker in the ILAS industry. The individual MPF broker can liaise with MPF providers authorised by the MPFA for adding their products in their alternative portfolio and then select suitable products from such portfolio according to the customers’ best interests and specific needs. The MPF broker is rewarded by receiving commission income from the authorised MPF providers for sale of their products.

Imperfection of MPF

Being launched in December 2000, the Hong Kong government and MPF participants, such as banks, insurance companies, trustees and investment companies, have been promoting MPF to the general public. With a few exceptions, MPF covers all the employees in Hong Kong who are between the ages of 18 and 65. It is similar in nature to ILAS with an aim to give the retiree reasonable financial protection after retirement. However, as illustrated in the following hypothetical example, MPF may be deficient in terms of flexibility and coverage. Our Directors believe that in particular, MPF may be insufficient to maintain the retirees’ living standards at current costs of living on retirement, as shown in the following hypothetical examples:

Assumptions:

(i)	Employee annual contribution	HK\$12,000
(ii)	Employer annual contribution	HK\$12,000
(iii)	Estimated average inflation rate over 10 years	3% per annum
(iv)	Expected nominal annual rate of return on investment	5% per annum
(v)	Retirement age	At the beginning of age 60
(vi)	Death age	At the end of age 80
(vii)	Estimated annual amount required to maintain the existing level of living standards at current costs	HK\$120,000

INDUSTRY OVERVIEW

<u>Employees</u>	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>	<u>Case 4</u>
Current age as at 31 December 2009	25	30	35	40
Year of retirement	2044	2039	2034	2029
Nominal amount on retirement received from MPF (HK\$)	2,167,687	1,594,532	1,145,450	793,583
Estimated aggregated nominal amount on retirement required to maintain the existing level of living standard for post-retirement living (HK\$)	9,973,492	8,603,222	7,421,215	6,401,605
No. of years supported by MPF amount after retirement	6.6	5.6	4.6	3.6
No. of years supported by non-MPF amount after retirement . .	13.4	14.4	15.4	16.4

The estimated aggregated nominal amount on retirement required to maintain the existing level of living standard for post-retirement living represents the estimated amount required to support the individual's basic living standard after retirement and is calculated as follows:

$$(1+3\%)^{(60-\text{current age})} \left[\sum_{i=1}^{n=21} (120,000)(1+3\%)^i \right]$$

Furthermore, as shown in the above formula, the estimated amount is negatively correlated with the current age of the individual. Therefore, the younger the individual is, the larger the inflation multiples and the larger the estimated amount.

Assuming the employee's current costs of living is HK\$10,000 per month, the amount received from MPF, as illustrated above, would support the retiree for as long as 6.6 years after retirement. For those above the age of 25, the number of years supported by MPF amount after retirement would be shorter. That means the shortage increases. Also, it should be reminded that the aggregate amount required to maintain the costs of living as illustrated above excludes medical costs and expenses.

However, the life expectancy in Hong Kong has increased from 78.0 for male and 83.9 for female in 2000 to 79.8 and 86.1 respectively in 2009, which is likely to be prolonged with, among others, the advancement in technologies and medicines. Thus, our Director believe that ILAS may be complimentary to MPF as it is able to cover the financial shortfalls arising from the MPF's inadequacy to cover his expected costs of living after retirement.

The above hypothetical examples have been prepared for illustrative purposes only. As the hypothetical examples are based on a number of subjective assumptions and are hypothetical in nature, it may not give a true picture of the results of the MPF scheme and the amount on retirement required to maintain the existing living standard for post-retirement living. Results of the MPF schemes and the amount on retirement required to maintain the existing living standard for post-retirement living may be different from these hypothetical examples under different assumptions and conditions.

GENERAL AND CONVENTIONAL INSURANCE BUSINESS

The general insurance market in Hong Kong is one of the more developed markets in Asia, as at 28 February 2010 there were 900 local and 579 overseas authorised insurers in Hong Kong. Accident and health, motor vehicle, property damage, general liability and pecuniary loss are the major types of insurance policies covered under the general insurance business. Gross premium of the general insurance business had fluctuated moderately over the past decade but had shown moderate growth between 2006 and 2009 within a range from 2.9% to 12.5% year-on-year.

INDUSTRY OVERVIEW

The conventional insurance business conducted by our Group includes, among others, non-investment-linked long term life insurance and term life insurance. Conventional insurance products generally involve a fixed amount of lump-sum payment on death or at maturity which does not involve any underlying investment option. The office premiums for non-investment-linked long term life in-force insurance business has been growing for every year between 2006 and 2009 ranging from 5.0% to 11.3% year-on-year.

Authorised insurers and banks in Hong Kong have established distribution networks for general and conventional insurance markets in Hong Kong which inevitably led to greater competition for intermediaries in this market. Despite the intense competition, our Directors are of the view that potential expansion opportunities remain in the general and conventional insurance markets given the recent moderate growth trends.