OFFERING CIRCULAR **STRICTLY CONFIDENTIAL**

CHINA TAIPING NEW HORIZON LIMITED

(incorporated in the British Virgin Islands with limited liability)

US$400,000,000
6.00 per cent. Guaranteed Notes due 2023
Unconditionally and Irrevocably Guaranteed by

中国太平 CHINA TAIPING

CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

ISSUE PRICE: 100%

The US$400,000,000 6.00 per cent. Guaranteed Notes due 2023 (the "**Notes**") will be issued by China Taiping New Horizon Limited (the "**Issuer**") and unconditionally and irrevocably guaranteed (the "**Guarantee**") by China Taiping Insurance Group (HK) Company Limited (the "**Guarantor**" or the "**Company**"). The Notes will constitute direct, unconditional, unsubordinated, general and senior obligations of the Issuer. The Notes will rank at all times *pari passu* with all of the Issuer's other present and future unsecured and unsubordinated obligations (subject to the negative pledge set out in the section entitled "*Terms and Conditions of the Notes*" herein). The Guarantee will constitute a direct, general, unconditional, unsubordinated and (subject to the negative pledge set out in the section entitled "*Terms and Conditions of the Notes*" herein) unsecured obligation of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor.

The Notes will bear interest from (and including) 18 October 2013 at the rate of 6.00 per cent. per annum payable semi-annually in arrear on 18 April and 18 October in each year, commencing with the first interest payment date falling on 18 April 2014. If a Change of Control occurs at the Guarantor, the Noteholder may require the Issuer to redeem the Notes at 101 per cent. of their principal amount plus accrued and unpaid interest. Subject to the Conditions, the Issuer may also redeem all of the Notes at 100 per cent. of their principal amount plus accrued and unpaid interest if at any time the Issuer or the Guarantor becomes obligated to pay withholding taxes as a result of certain changes in tax law. Subject to the above and any previous purchase and cancellation, the Issuer will redeem the Notes at their principal amount on 18 October 2023. For a more detailed description of the Notes, see the section entitled "*Terms and Conditions of the Notes*" herein.

The Notes are expected to be rated "BBB+" by Standard & Poor's Ratings Services ("**Standard & Poor's**"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Standard & Poor's. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for listing of, and permission to deal in, the Notes by way of debt issues to professional investors only and such permission is expected to become effective on 18 October 2013. The Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the content of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 32 of this Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"). The Notes and the Guarantee may not be offered or sold within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Notes are being offered only outside the United States in reliance on Regulation S under the US Securities Act ("Regulation S"). For a description of certain restrictions on resale or transfer, see the section entitled "*Subscription and Sale*" herein.

The Notes will initially be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of, and shall be deposited on or about 18 October 2013 with, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Certificate.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Agricultural Bank of China Limited Hong Kong Branch	**Bank of China (Hong Kong) Limited**	**CCB International**	**CICC**	**Credit Suisse**	**J.P. Morgan**

(in alphabetical order)

Co-Manager

Taiping Securities

The date of this Offering Circular is 10 October 2013

NOTICE TO INVESTORS

This Offering Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Issuer, the Guarantor, the Group and the Notes. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts in relation to the Issuer, the Guarantor, the Group or the Notes the omission of which would in the context of the issue of the Notes make any statement in this Offering Circular misleading.

This Offering Circular has been prepared by the Issuer and the Guarantor for use in connection with the proposed offering of the Notes described in this Offering Circular. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. The Issuer, the Guarantor, the Joint Lead Managers, the Co-Manager and the Agents do not represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers and the Co-Manager to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith, including the United States, the European Economic Area (including the United Kingdom), Singapore and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Circular, see the section entitled "*Subscription and Sale*" in this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group and the Notes other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers, the Co-Manager or the Agents (as defined in the section entitled "*Terms and Conditions of the Notes*" in this Offering Circular). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Co-Manager or the Agents to subscribe for or purchase any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. Listing of the Notes on the Stock Exchange is not to be taken as an indication of the merits of the Issuer or the Notes. In making an investment decision, potential investors must rely on their own examination of the Issuer and the terms of the offering of the Notes, including the merits and risks involved. See the section entitled "*Risk Factors*" in this Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Co-Manager or any person affiliated with them in connection with its investigation of the accuracy of such information or its investment decision.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Co-Manager or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Co-Manager or the Agents. The Joint Lead Managers, the Co-Manager or the Agents have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the Guarantor, the Joint Lead Managers, the Co-Manager or the Agents that any recipient of this Offering Circular should purchase the Notes. Each potential investor of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, the Joint Lead Managers, the Co-Manager and the Agents do not accept any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Co-Manager and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Co-Manager or the Agents undertakes to review the financial condition or affairs of the Guarantor or the Issuer after the date of this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers, the Co-Manager or Agents.

Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this Offering Circular and must obtain any consent, approval, or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and none of the Issuer, the Guarantor, the Joint Lead Managers, the Co-Manager or the Agents shall have any responsibility therefore.

Any purchase or acquisition of the Notes is in all respects conditional on the satisfaction of certain conditions set out in the Subscription Agreement and the issue of the Notes by the Issuer to the Joint Lead Managers pursuant to the Subscription Agreement. Any offer, invitation to offer or agreement made in connection with the purchase or acquisition of the Notes or pursuant to this Offering Circular shall (without any liability or responsibility on the part of the Issuer, the Guarantor or the Joint Lead Managers or the Co-Manager) lapse and cease to have any effect if (for any other reason whatsoever) the Notes are not issued by the Issuer to the Joint Lead Managers pursuant to the Subscription Agreement.

IN CONNECTION WITH THE ISSUE OF THE NOTES, TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH, APPLICABLE LAWS AND REGULATIONS, A JOINT LEAD MANAGER (THE "**STABILISING MANAGER**") (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL.

HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Enforcement of Civil Liabilities

The Issuer is incorporated in the British Virgin Islands and the Guarantor is incorporated in Hong Kong with limited liability. Substantially all of the assets of the Issuer comprise an inter-company loan to the Guarantor and a substantial majority of the Guarantor's assets are located in the PRC and Hong Kong. In addition, most of the Issuer's and the Guarantor's directors and a significant portion of the Issuer's and the

Guarantor's officers are residents of the PRC or Hong Kong, and all of the assets of such persons are, or may be, located outside England. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce judgments obtained in courts outside the PRC and Hong Kong against such persons.

It is uncertain as to whether the courts of the PRC would (i) enforce judgments of English courts obtained predicated upon the civil liability provisions of English law or (ii) hear a fresh suit initiated in the PRC predicated upon English law as there is no treaty between England and the PRC and the PRC courts will only recognise and enforce foreign judgments in accordance with the PRC Civil Procedure Law.

Hong Kong has no statutory regime governing the reciprocal enforcement of judgments with England. However, under Hong Kong common law, a foreign judgment (including one from a court in England predicated upon English law) may be enforced in Hong Kong by bringing a fresh action in a Hong Kong court, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive in the court in which it was rendered.

In addition, Hong Kong courts may refuse to recognise or enforce a foreign judgment if such judgment:

- was obtained by fraud;
- was rendered by a foreign court that lacked the appropriate jurisdiction at the time;
- is contrary to public policy or natural justice;
- is for multiple damages; or
- is based on foreign penal, revenue or other public law.

However, there can be no assurance that the PRC or Hong Kong courts will recognise and enforce any foreign judgments obtained outside of the PRC or Hong Kong.

The Company and the Issuer have been advised by their British Virgin Islands legal adviser, Walkers, that a final and conclusive judgment obtained in a court of a foreign country (with which no reciprocal arrangements exist or extend, including the United States) for either a liquidated sum (not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations), or in certain circumstances, for in personam non-money relief, will be recognised and enforced in the courts of the British Virgin Islands without any re-examination of the merits at common law, by an action commenced on the foreign judgment in the courts of the British Virgin Islands. A final opinion as to the availability of this remedy should be sought when the facts surrounding the foreign court's judgment are known, but, on general principles, it is expected such proceedings would be successful provided that (i) the judgment had not been wholly satisfied; (ii) such court had jurisdiction in the matter and the Company or the Issuer either submitted to the jurisdiction of the foreign court or was resident or carrying on business within such jurisdiction and was duly served with process; (iii) in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of a court; (iv) recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy or for some other similar reason the judgment could not have been entertained by the courts of the British Virgin Islands; (v) the proceedings pursuant to which judgment was obtained were not contrary to natural justice; and (vi) applicable rules of British Virgin Islands law permit service out on the debtor in question.

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CERTAIN DEFINED TERMS AND CONVENTIONS

In this Offering Circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"**ABCHK**"	Agricultural Bank of China Limited Hong Kong Branch, one of the Joint Global Coordinators, the Joint Lead Managers and the joint bookrunners in respect to the offer and sale of the Notes
"**Ageas**"	Ageas Insurance International N.V., an insurance company incorporated in the Netherlands
"**Board**"	the board of Directors of the Company
"**BOCHK**"	Bank of China (Hong Kong) Limited, one of the Joint Global Coordinators, the Joint Lead Managers and the joint bookrunners in respect to the offer and sale of the Notes
"**business day**"	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong, unless otherwise specified
"**BVI**"	the British Virgin Islands
"**CAGR**"	compound annual growth rate
"**CCBI**"	CCB International Capital Limited, one of the Joint Global Coordinators, the Joint Lead Managers and the joint bookrunners in respect to the offer and sale of the Notes
"**CICC**"	China International Capital Corporation Hong Kong Securities Limited, one of the Joint Global Coordinators, the Joint Lead Managers and the joint bookrunners in respect to the offer and sale of the Notes
"**CIRC**"	China Insurance Regulatory Commission (中國保險業監督管理委員會)
"**Co-Manager**" or "**Taiping Securities**"	Taiping Securities (HK) Co Limited (太平證券(香港)有限公司)
"**Company**", "**Guarantor**" or "**TPG (HK)**"	China Taiping Insurance Group (HK) Company Limited (中國太平保險集團(香港)有限公司), a company incorporated in Hong Kong with limited liability
"**Credit Suisse**"	Credit Suisse Securities (Europe) Limited, one of the Joint Global Coordinators, the Joint Lead Managers and the joint bookrunners in respect to the offer and sale of the Notes
"**CSRC**"	China Securities Regulatory Commission (中國證券監督管理委員會)

"**CTIH**"	China Taiping Insurance Holdings Company Limited (中國太平保險控股有限公司) (formerly known as China Insurance International Holdings Company Limited or CIIH (中保國際控股有限公司)), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange. The Company has an effective interest of 53.27% in CTIH as at the date of this Offering Circular
"**CTPI (HK)**"	China Taiping Insurance (HK) Company Limited, a wholly-owned subsidiary of CTIH engaging in the property and casualty insurance segment in Hong Kong
"**Director(s)**"	director(s) of the Company
"**Dragon Jade**"	Dragon Jade Industrial District Management (Shenzhen) Co., Ltd. (龍璧工業區管理(深圳)有限公司), a limited company established in the PRC with limited liability and a wholly-owned subsidiary of the Company principally engaging in property investment
"**EIT Law**"	the PRC Enterprise Income Tax Law effective on 1 January 2008
"**Group**"	the Company and its subsidiaries
"**HK$**" or "**HKD**"	Hong Kong dollars, the lawful currency of Hong Kong
"**HKFRS**"	Hong Kong Financial Reporting Standards, which set out the accounting principles applicable in Hong Kong
"**Hong Kong**"	the Hong Kong Special Administrative Region of the PRC
"**Hong Kong Stock Exchange**" or "**Stock Exchange**"	The Stock Exchange of Hong Kong Limited
"**Issuer**"	China Taiping New Horizon Limited, a BVI business company incorporated with limited liability under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
"**J.P. Morgan**"	J.P. Morgan Securities plc, one of the Joint Global Coordinators, the Joint Lead Managers and the joint bookrunners in respect to the offer and sale of the Notes
"**Joint Global Coordinators**"	ABCHK, BOCHK, CCBI, CICC, Credit Suisse and J.P. Morgan
"**Joint Lead Managers**"	ABCHK, BOCHK, CCBI, CICC, Credit Suisse and J.P. Morgan
"**Listing Rules**"	the Rules Governing the Listing of Securities on the Stock Exchange
"**Macau**"	the Macau Special Administrative Region of the PRC
"**Ming Lee**"	Ming Lee Investment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company principally engaging in property investment

"**MOF**"	Ministry of Finance of the PRC (中華人民共和國財政部)
"**MOFCOM**"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"**Notes**"	the US$400,000,000 principal amount of 6.00 per cent. Guaranteed Notes due 2023 to be issued by the Issuer on or about 18 October 2013
"**OCI**"	the Office of the Commissioner of Insurance of Hong Kong (香港保險業監理處)
"**Offering**"	the offering of the Notes by the Issuer
"**PBOC**"	the People's Bank of China (中國人民銀行)
"**PRC**" or "**China**"	the People's Republic of China, which for the purposes of this Offering Circular, excludes Hong Kong, Macau and Taiwan
"**PRC Insurance Law**"	the Insurance Law of the PRC (中華人民共和國保險法), as enacted by the Standing Committee of the Eighth National People's Congress on 30 June 1995 and effective on 1 October 1995, as amended, supplemented or otherwise modified from time to time
"**PRC Securities Law**"	the Securities Law of the PRC (中華人民共和國證券法), as enacted by the Standing Committee of the Ninth National People's Congress on 29 December 1998 and effective on 1 July 1999, as amended, supplemented or otherwise modified from time to time
"**Regulation S**"	Regulation S under the US Securities Act
"**RMB**" or "**Renminbi**"	the lawful currency of the PRC
"**SAFE**"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"**SAIC**"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"**SAT**"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"**SFO**"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"**State Council**"	the State Council of the PRC (中華人民共和國國務院)
"**STFT**"	Shanghai Taiping Finance Tower
"**Subscription Agreement**"	the subscription agreement entered into among the Issuer, the Guarantor, the Joint Lead Managers and the Co-Manager on 10 October 2013

"TP Indonesia"	PT China Taiping Insurance Indonesia, a limited company incorporated in Indonesia, owned as to 55% by TPG and 45% by PT Megah Putra Manunggal. TP Indonesia is principally engaged in property and casualty insurance business in Indonesia
"TP Japan"	China Taiping Insurance Service (Japan) Co., Ltd., a company incorporated in Japan with limited liability and a wholly-owned subsidiary of the Company principally engaging in the insurance agency business in Japan
"TP Macau"	China Taiping Insurance (Macau) Company Limited, a company incorporated in Macau with limited liability and a wholly-owned subsidiary of the Company principally engaging in property and casualty insurance business in Macau
"TP Singapore"	China Taiping Insurance (Singapore) PTE. Ltd., a company incorporated in Singapore with limited liability and a wholly-owned subsidiary of the Company principally engaging in property and casualty insurance business in Singapore
"TP UK"	China Taiping Insurance (UK) Company Limited, a company incorporated in the United Kingdom with limited liability and a wholly-owned subsidiary of the Company principally engaging in property and casualty insurance business in the United Kingdom
"TPA (HK)"	Taiping Assets Management (HK) Company Limited (太平資產管理(香港)有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CTIH engaging in asset management business in Hong Kong
"TPAM"	Taiping Asset Management Company Limited (太平資產管理有限公司), a company incorporated in the PRC and a 60% owned subsidiary of CTIH engaging in asset management business in the PRC
"TPeC"	Taiping E-Commerce Company Limited (太平電子商務有限公司), a company incorporated in the PRC and an 80% owned subsidiary of CTIH engaging in E-commerce for insurance business in the PRC
"TPFAS"	Taiping Financial Audit Service (Shenzhen) Company Limited (太平金融稽核服務(深圳)有限公司), a company established in the PRC and a wholly-owned subsidiary of TPG. TPFAS is principally engaged in the provision of internal audit services for the Group and the TPG group companies
"TPFH"	Taiping Financial Holdings Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company engaging in investment holding company

"**TPFSC**"	Taiping Financial Service Centre (Shanghai) Company Limited (太平共享金融服務(上海)有限公司), a company established in the PRC and a wholly-owned subsidiary of TPG. TPFSC is principally engaged in the provision of back office services for the Group and the TPG group companies
"**TPG**"	China Taiping Insurance Group Ltd. (中國太平保險集團有限責任公司), a state owned PRC insurance group company, which holds a 100% equity interest in the Company
"**TPI**"	Taiping General Insurance Company Limited (太平財產保險有限公司), a company incorporated in the PRC and a 61.21% owned subsidiary of CTIH engaging in property and casualty insurance business in the PRC
"**TPIH**"	Taiping Investment Holdings Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company engaging in property investment
"**TPL**"	Taiping Life Insurance Company Limited (太平人壽保險有限公司), a company incorporated in the PRC and a 50.05% owned subsidiary of CTIH engaging in life insurance business in the PRC
"**TPP**"	Taiping Pension Company Limited (太平養老保險股份有限公司), a company incorporated in the PRC and a 96% owned subsidiary of CTIH engaging in pension and group life insurance business in the PRC
"**TPRB**"	Taiping Reinsurance Brokers Limited, a company incorporated in Hong Kong with limited liability and a wholly indirectly owned subsidiary of CTIH
"**TPRe**"	Taiping Reinsurance Company Limited (太平再保險有限公司), a company incorporated in Hong Kong with limited liability and a wholly indirectly owned subsidiary of CTIH engaging in reinsurance business in Hong Kong
"**United States**" or "**US**"	the United States of America, including its territories and possessions
"**US Securities Act**"	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"**US$**" or "**USD**"	US dollars, the lawful currency of the United States
"**%**"	per cent

Note:

The English names of the PRC entities referred to in this Offering Circular are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

Market data and certain industry forecasts used throughout this Offering Circular have been obtained based on internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Company or any Joint Lead Manager or Co-Manager makes any representation as to the accuracy and completeness of that information.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

GLOSSARY OF INSURANCE TERMS

The glossary contains explanations of certain terms and definitions used in this Offering Circular in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"**annuity**"	a contract that provides for periodic payments to an annuitant for a specified period of time, often until the annuitant's death
"**bancassurance**"	the distribution of insurance products through bank branches and/or joint ventures with banks
"**Bornhuetter-Ferguson method**"	a method of determining the claim reserves for incurred but not reported claims by adjusting IBNR reserves using the actual development and projected loss of the reported claims
"**cash surrender value**"	the amount of cash available to a policyholder on the surrender of or withdrawal from a long-term life insurance policy
"**cedant**"	the insurer that transfers its insurance risk to a reinsurer
"**cede**"	when an insurer reinsures its insurance risk with another insurer or reinsurer, it "cedes" business
"**claim**"	a demand made by an insured person or the beneficiary of an insurance policy in respect of a loss which may come within the cover provided on the sum insured by the policy
"**claim reserves**"	liabilities established to provide for losses and loss adjustment expenses associated with incurred but not reported claims and reported but not settled claims
"**claims adjuster**"	an individual or an entity that determines insurance liabilities and the amount of claim payments, based on its review of claim materials
"**combined ratio**"	the sum of the loss ratio and the expense ratio for a property and casualty insurance company or a reinsurance company
"**commission**"	a payment to an agent or broker by an insurance company for service in respect of a sale or maintenance of an insurance product
"**divisible surplus**"	the amount of earnings of an insurance company distributable to holders of participating policies after sufficient funds are reserved to cover contractual obligations, operating expenses and contingencies
"**embedded value**"	an actuarially determined estimate of the adjusted net worth and value of in-force business of the life insurance operations of an insurance company based on a particular set of assumptions as to future experience, excluding any value attributable to any future new business

"endowment life insurance"......... life insurance under which an insured party receives the face value of a policy if the individual survives the endowment period. If the insured party does not survive, a beneficiary receives the face value of the policy

"expense ratio"........................... the ratio of property and casualty insurance operating expenses to net premiums earned

"facultative reinsurance"............ a reinsurance arrangement covering a single risk as opposed to a treaty arrangement; commonly used for very large risks or portions of risk written by a single insurer and are shared among several reinsurers

"gross premiums written"........... the amount charged on insurance policies issued, renewed or reinsured by an insurer for a given period, without deduction for premiums ceded to reinsurers. Under HKFRS, for investment-type insurance contracts and investment contracts, only portions of the premiums used to cover the insured risks and associated costs are deemed as gross premiums written

"in-force".................................... a policy that is shown on records to be in-force on a given date and that has not matured by death or otherwise or been surrendered or otherwise terminated

"incurred but not yet reported reserves" or **"IBNR reserves"** ... reserves for estimated losses and loss adjustment expenses which have been incurred but not yet reported to the insurer or reinsurer, including future development of claims which have been reported to the insurer or reinsurer but where the established reserves may ultimately prove to be inadequate

"life insurance"........................... all insurance business operated by a life insurance company, such as life, retirement, health and accident insurance, except where the context otherwise requires

"long-term life insurance policies" .... life insurance policies which are intended to be greater than twelve months in duration and not subject to unilateral changes in the contract terms and require the performance of various functions and services (including but not limited to insurance protection) for an extended period of time

"loss".. an occurrence that is the basis for submission and/or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the policy

"loss adjustment expenses" or **"LAE"**..................................... the expenses of settling claims from the property and casualty business, including legal and other fees and general expenses “**loss ratio**” .... the ratio of an insurance or reinsurance company’s loss incurred and loss adjustment expenses, net of reinsurance covered, to net premiums earned

“**morbidity**” .... incidence rates of ailment of a particular population, varying by such parameters as age, gender and duration, used in pricing and computing liabilities for health insurance

“**mortality**” .... rates of death, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholder benefits for life and annuity products

“**net premiums earned**”............... net premiums written less the change in unearned premium reserves

“**net premiums written**”.............. gross premiums written for a period less premiums ceded to reinsures during such period

“**new business value**” .... embedded value of new insurance contracts written in the year

“**non-participating policy**” .... policies under which the policyholder has no right to share distributable surplus of the account. Non-participating policies generally feature lower premiums than participating policies

“**P&C**” or “**property and casualty insurance**” or “**general insurance**” .... all insurance business operated by a property and casualty insurance company, such as property, casualty, short-term health and accident insurance, except where the context otherwise requires

“**participating policies**”............... policies or annuity contracts under which the owner is eligible to share in the divisible surplus of the insurer through policyholder dividends, whether or not such dividends are currently payable

“**persistency**” .... the percentage of insurance policies remaining in-force from year to year, as measured by premiums

“**policyholders’ reserves**” .... reserve liabilities established to provide for future obligations arising under life insurance products

“**premium**”.................................. payment received on insurance policies issued or reissued by an insurance company

“**regular premium products**”........ an insurance product with regular periodic premium payments

“**reinsurance**”.............................. the practice of sharing or spreading of an insured risk of an insurer, or the reinsured, by ceding part of the risk to another insurer, or the reinsurer. The reinsurer, in consideration of a premiums paid to it, agrees to indemnify the reinsured for part or all of the liability assumed by the reinsured under a contract or contracts of insurance which the reinsured has issued

"**reserves**"	liability established to provide all future claims of policyholders net of liability ceded to reinsurance companies
"**retention amounts**"	the amount of insurance coverage that the primary insurer assumes for its own account, exclusive of any amount ceded to a reinsurer
"**solvency margin**"	a measure of an insurance company's solvency
"**statutory reserves**"	amounts required to be reserved under the PRC Insurance Law as well as PRC statutory accounting standards in order for an insurance company to provide for future obligations with respect to all policies. Statutory reserves are liabilities on the balance sheet of financial statements prepared in conformity with PRC statutory accounting standards
"**surrender**"	the termination of an insurance contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract
"**term life insurance**"	life insurance products which provide a guaranteed benefit upon the death of the insured within a specific time period
"**treaty reinsurance**"	reinsurance that a reinsurer is obligated to accept, subject to conditions set out in a treaty
"**underwriting**"	the process of examining and classifying insurance risks, in order to decide whether to accept such risks and the conditions on which the risks should be accepted
"**unearned premium reserves**"	liabilities established to reflect the portion of premiums written relating to the unexpired periods of coverage of property and casualty insurance contracts and short-term accident and health insurance contracts with an original insured period of not more than one year
"**universal life insurance**"	a life insurance product that sets up an account for each policy, with each account providing guaranteed minimum investment return
"**value of in-force business**"	the discounted value of the projected stream of future after-tax distributable profits for existing life insurance business of TPL in-force at the valuation date
"**whole life insurance**"	life insurance under which the payment of benefits is conditioned upon death, with a policy duration of the insured's entire life
"**withdrawal**"	surrender in part. Some insurance products permit the insured party to withdraw a portion of the cash surrender value of the contract. Future benefits are reduced accordingly

FORWARD-LOOKING STATEMENTS

The Issuer and the Company have made certain forward-looking statements in this Offering Circular regarding, among other things, the Group's financial condition, future expansion plans and business strategies. These forward-looking statements are based on the Company's current expectations about future events. Although the Company believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- the Group's business and operating strategies and its various measures and initiatives to implement these strategies;
- the future competitive environment for the PRC, Hong Kong or global insurance industry, including the life insurance, property and casualty insurance, pension and reinsurance industries;
- the Group's operations and business prospects, including development plans for the Company's existing and new businesses, products and services;
- changes in the regulatory environment, including new developments in laws, rules and regulations applicable to the Group, as well as the general industry outlook for the PRC, Hong Kong or global insurance industry, including the life insurance, property and casualty insurance, pension and reinsurance industries; and
- future developments in the PRC, Hong Kong or global insurance industry, including the life insurance, property and casualty insurance, pension and reinsurance industries.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Issuer and the Company undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Group's actual results could differ materially from those anticipated in these forward-looking statements.

Investors are cautioned not to place undue reliance on these forward-looking statements which reflect the view of the management of the Issuer and the Company only as of the date of this Offering Circular. The Issuer and the Company expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in their expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. You should read the entire Offering Circular carefully, including the Group's consolidated financial statements and related notes and "Risk Factors".

Overview

The Company is a private insurance conglomerate incorporated and headquartered in Hong Kong. With its comprehensive business platform, the Company delivers one-stop integrated financial and insurance services to its customers. Through its subsidiaries, the Company principally engages in the life insurance business, the property and casualty insurance business, and the reinsurance business, as well as other businesses comprising primarily the asset management business, the pension and group life insurance business, the insurance intermediary business, E-commerce for insurance and the property investment business. The Company is 100% owned by TPG, one of the longest standing national enterprises in the PRC insurance industry.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Group had gross premiums written of HK$49,632.8 million, HK$51,106.1 million, HK$61,163.2 million and HK$51,165.3 million, respectively, and it generated profit after taxation of HK$3,232.7 million, HK$2,007.7 million, HK$1,877.5 million and HK$826.2 million for the same periods, respectively. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total assets of the Group amounted to HK$165,817.1 million, HK$205,199.0 million, HK$257,859.1 million and HK$292,336.9 million, respectively.

CTIH, the Company's most significant subsidiary, is publicly listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: HK 00966) and was the first Chinese insurance enterprise to be publicly listed. CTIH has obtained an issuer default rating of "BBB+" from Fitch and a long-term issuer credit rating of "BBB+" from Standard & Poor's. The Company currently owns a 53.27% equity interest in CTIH. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, CTIH had gross premiums written of HK$48,574.8 million, HK$49,889.7 million, HK$59,915.3 million and HK$50,506.8 million, respectively, and it generated profit after taxation of HK$2,653.5 million, HK$972.2 million, HK$1,473.7 million and HK$739.1 million for the same periods, respectively. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total assets of CTIH amounted to HK$154,483.7 million, HK$191,360.6 million, HK$242,938.5 million and HK$274,996.8 million, respectively. The embedded value of CTIH as at 31 December 2012 and 30 June 2013 was HK$37,656 million and HK$49,191 million, respectively.

The Group's operations mainly comprise the following businesses:

Life insurance

The life insurance business is the strategic pillar that supports the ongoing development of the Group and is a major contributor to the Group's assets and net profit. The Group's life insurance business is operated by TPL, which is PRC-incorporated and is currently 50.05% owned by CTIH, 25.05% owned by TPG and 24.9% owned by Ageas. TPL is principally engaged in the underwriting of life insurance policies in Mainland China. TPL's products are distributed through individual agents, bancassurance and direct sales (primarily telemarketing). Based on premium data published by the CIRC, TPL had a market share of 5.2% in the PRC life insurance market for the six months ended 30 June 2013, operating through 34 provincial branches and 882 sub-branches and marketing centres in major cities in Mainland China and ranking as the seventh largest life insurer in the PRC as at 30 June 2013. TPL has obtained an issuer financial strength rating of "A-" from Fitch.

In 2012 and the first six months of 2013, TPL had gross premiums written of HK$44,807.5 million and HK$40,254.6 million, respectively, and generated profit after taxation of HK$861.8 million and HK$289.8 million, respectively. The embedded value of TPL as at 31 December 2012 and 30 June 2013 was HK$29,286 million and HK$41,938 million, respectively.

Property and casualty insurance

The Group offers property and casualty insurance in the PRC, Hong Kong and other overseas regions including Macau, Singapore and the United Kingdom.

PRC Property and Casualty Insurance – The Group's property and casualty insurance business in the PRC is operated by TPI, which is currently 61.21% owned by CTIH and 38.79% owned by TPG. TPI is mainly engaged in underwriting motor, marine and non-marine policies in Mainland China. Based on premium data published by the CIRC, TPI had a market share of 1.6% in the PRC property and casualty insurance market for the six months ended 30 June 2013, operating through 28 provincial branches and 392 sub-branches and marketing centres in major cities in Mainland China and ranking as the eighth largest general insurer in the PRC as at 30 June 2013.

In 2012 and the first six months of 2013, TPI had gross premiums written of HK$9,547.8 million and HK$6,513.3 million, respectively, and generated profit after taxation of HK$239.5 million and HK$209.3 million, respectively.

Hong Kong Property and Casualty Insurance – The Group's property and casualty insurance business in Hong Kong is operated by CTPI (HK), which is wholly-owned by CTIH and was incorporated in Hong Kong in 1949. CTPI (HK) is mainly engaged in the underwriting of motor, marine and non-marine policies in Hong Kong. Based on premium data published by the OCI, CTPI (HK) had a market share of 3.7% in the Hong Kong property and casualty insurance market in 2012, and was ranked sixth in the Hong Kong general insurance market as at 31 December 2012. CTPI (HK) has obtained both an insurer financial strength rating and a counterparty credit rating of "A" from Standard & Poor's, and a financial strength rating of "A" from A.M. Best.

In 2012 and the first six months of 2013, CTPI (HK) had gross premiums written of HK$1,041.5 million and HK$694.7 million, respectively, and generated profit after taxation of HK$531.7 million and HK$179.3 million, respectively.

Overseas Property and Casualty Insurance – The Group also operates property and casualty insurance business in Macau, Singapore and the United Kingdom through wholly-owned subsidiaries TP Macau, TP Singapore and TP UK. TP Macau is the market leader in the Macau general insurance industry with the highest market share, 27.2%, in terms of premium income in 2012, based on premium data published by Autoridade Monetária de Macau.

Reinsurance

The Group's reinsurance business is operated by TPRe, which is wholly-owned by CTIH and was incorporated in Hong Kong in 1980. TPRe is mainly engaged in the underwriting of all classes of non-life reinsurance business around the world, consisting mainly of short-tail property reinsurance business in the Asia Pacific region. TPRe also engages in the underwriting of certain classes of long-term (life) reinsurance business. TPRe has chosen not to engage in long-tail liability reinsurance business from outside of Asia, such as from the United States and Europe. TPRe is one of the largest reinsurers in Hong Kong with a market share of 18.6% in 2012 based on premium data published by the OCI. TPRe has obtained an issuer financial strength rating of "A" from Fitch, a financial strength rating of "A-" from A.M. Best and both a financial strength rating and a counterparty credit rating of "A" from Standard & Poor's.

In 2012 and the first six months of 2013, TPRe had gross premiums written of HK$3,435.3 million and HK$2,217.0 million, respectively, and generated profit after taxation of HK$112.1 million and HK$195.1 million, respectively.

Other businesses

The Group's other businesses consist primarily of the pension and group life insurance business, the asset management business, the insurance intermediary business, E-commerce for insurance and the property investment business.

Pension and Group Life Insurance – The Group's pension management business is operated by TPP. TPP is a PRC-incorporated company and is currently 96% owned by CTIH and 4% owned by TPG. TPP is principally engaged in corporate and personal retirement insurance and annuity businesses, and the group life insurance business in Mainland China. In 2012 and the first six months of 2013, TPP had gross premiums written of HK$1,136.4 million and HK$879.0 million, respectively. TPP had a loss after taxation of HK$128.6 million in 2012 and a profit after taxation of HK$2.3 million in the first six months of 2013.

Asset Management – The Group's asset management business is operated by TPAM and TPA (HK). TPAM and TPA (HK) are mainly engaged in the provision of investment consultancy services to the group companies in managing their RMB and non-RMB investment portfolios, respectively. TPAM is a PRC-incorporated company and is currently 60% owned by CTIH, 20% owned by TPG and 20% owned by Ageas, while TPA (HK) is a Hong Kong-incorporated company and is wholly-owned by CTIH. As at 30 June 2013, TPAM and TPA (HK) had HK$220,090 million and HK$11,623 million assets under management, respectively. In 2012 and the first six months of 2013, the Group's asset management business generated a profit after taxation of HK$31.7 million and HK$10.5 million, respectively.

Insurance Intermediary – The Group's insurance intermediary business is operated by TPRB and TP Japan. TPRB is wholly-owned by CTIH and is incorporated in Hong Kong. TPRB is mainly engaged in broking services for reinsurance and insurance companies. TPRB's key markets are Hong Kong, Macau, Singapore and the PRC. TP Japan is a limited company incorporated in Japan in 1991. The principal activities of TP Japan are the provision of insurance agency services in the Japanese market. In addition, TP Japan also maintains long-term business relationships with major insurance enterprises in Japan for the benefit of TPG. TP Japan also produces rental income from its properties.

E-commerce for Insurance – The Group's E-commerce for insurance is operated by TPeC, which was established in July 2012 to build a uniform e-commerce platform within the entire Group. TPeC is 80% owned by CTIH and 20% owned by Ageas.

Property Investment Business – The group companies involved in property investment include TPIH, Dragon Jade and Ming Lee, which derive the majority of their respective book value from various offices and car parking properties spanning tier-1 cities in the PRC as well as Hong Kong and Macau, most of which are for rent (the rest are for self-use), providing a constant and stable cash flow stream to the Group. The largest holdings include STFT, which is located in the heart of the Lujiazui Finance and Trade Zone in Shanghai, the PRC.

Restructuring

On 27 May 2013, CTIH as purchaser entered into a framework agreement with TPG and the Company as vendors, pursuant to which CTIH has conditionally agreed to acquire (i) additional equity interests in certain non-wholly-owned subsidiaries of CTIH, including a 25.05% equity interest in TPL, a 38.79% equity interest in TPI, a 20% equity interest in TPAM and a 4% equity interest in TPP; (ii) equity interests in overseas property and casualty insurance companies, namely 100% equity interests in each of TP Macau, TP Singapore and TP UK owned by the Company, and a 55% equity interest in TP Indonesia owned by TPG; and (iii) equity interests in certain property holding companies and other companies owned by TPG and the Company and certain liabilities relating to the companies being acquired, for an aggregate consideration of RMB10,581,367,500 (equivalent to HK$13,277,495,800 using an exchange rate RMB1.00 = HK$1.25480 as agreed by the relevant parties), which will be settled by the issuance of consideration shares by CTIH at the issue price of HK$15.39 per share (the "**Restructuring**"). The Restructuring covers equity interests in 25 target companies in total. Upon completion, the Restructuring will significantly strengthen CTIH's capital base with the total number of outstanding shares in CTIH increasing by 50.6% from 1,705,875,092 to 2,568,610,362, and increase the shareholding of TPG and the Company in CTIH from 53.27% to 68.96%.

Completion of the Restructuring is conditional upon the fulfilment of the following conditions:

(i) the framework agreement, the transactions contemplated thereunder and the allotment and issue of not more than 862,735,270 consideration shares having been approved by the independent shareholders of CTIH in accordance with the requirements of the Listing Rules;

(ii) the approval for the listing of and permission to deal in the consideration shares having been granted by the Listing Committee of the Stock Exchange; and

(iii) where applicable, the framework agreement and the transactions contemplated thereunder having been approved by relevant departments and commissions of the PRC government, including the MOF, the CIRC, the MOFCOM and the CSRC;

and, where applicable, conditions precedent set out in the specific agreements to be entered by TPG, the Company and CTIH relating to the Restructuring.

As at the date of this Offering Circular, conditions (i) and (ii) had been fulfilled, and a joint approval in principle from CIRC and MOF was obtained in April 2013. Subject to the fulfilment of all conditions precedent to the framework agreement and the relevant specific agreements, the completion of the Restructuring is expected to take place on or before 30 June 2014. For more detailed information on the Restructuring, please refer to the May 2013 Circular, see the section entitled "*Information Incorporated by Reference*" in this Offering Circular.

Recent Developments

Issue of US$300 million 6.0% guaranteed notes due 2028 by China Taiping Fortunes Limited

On 2 October 2013, China Taiping Fortunes Limited, a wholly-owned subsidiary of CTIH incorporated in the British Virgin Islands with limited liability, issued US$300 million aggregate principal amount of US$-denominated, unsecured and unsubordinated notes due 2028 pursuant to Regulation S. The notes carry an annual interest rate of 6.0% and are unconditionally and irrevocably guaranteed by CTIH. The net proceeds of the issue of the notes will be on-lent by China Taiping Fortunes Limited to CTIH and/or CTIH's subsidiaries, to be used by CTIH and/or its subsidiaries for general corporate purposes.

Issue of US$300 million 6.0% guaranteed notes due 2028 by China Taiping Wealth Limited

On 4 October 2013, China Taiping Wealth Limited, a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability, issued US$300 million aggregate principal amount of US$-denominated, unsecured and unsubordinated notes due 2028 pursuant to Regulation S. The notes carry an annual interest rate of 6.0% and are unconditionally and irrevocably guaranteed by the Company. The net proceeds of the issue of the notes will be on-lent by China Taiping Wealth Limited to the Guarantor and/or other members of the Group, to be used by the Group for its general corporate purposes.

Save as disclosed above, the Group confirms that there has been no material adverse change in its business, financial condition or results of operations since 30 June 2013, which is the date of its latest reviewed consolidated financial results.

Competitive Strengths

The Group believes it has the following major strengths:

- Long-established Chinese insurance brand well positioned to play an increasingly important role in the steady development of the PRC's insurance market;
- Diversified business lines and wide market coverage to achieve stable profitability;
- Well-positioned to capture growth opportunities in the PRC insurance market;
- Value-driven product mix focused on profitability and persistency;
- Operational and underwriting efficiency through state-of-the-art centralised platform;
- Prudent and conservative investment portfolio and strategy;
- Attractive investment property portfolio enhancing group financial performance; and
- Experienced senior management team with extensive operating experience in the PRC insurance industry and strong foreign partnership.

Strategies

The Group's principal strategies are:

- Focus on quality and profitable growth with balanced business expansion;
- Expand geographic coverage and strengthen distribution network;
- Maximise agency productivity and cross-selling opportunities by leveraging diversified business platform and e-commerce channel;
- Further enhance the operation platform and improve the centralised back office system to capture economies of scale;
- Improve investment management capabilities and investment returns; and
- Continue to strengthen risk management and internal control systems.

THE OFFERING

This Summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including the documents and information incorporated by reference. The terms and conditions of the Notes, the Deed of Covenant, the Guarantee and the Fiscal Agency Agreement shall prevail to the extent of any inconsistency with the terms set out in this section. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this Summary.

Issuer	China Taiping New Horizon Limited, a BVI business company incorporated with limited liability in the British Virgin Islands.
Guarantor	China Taiping Insurance Group (HK) Company Limited, a company incorporated with limited liability in Hong Kong.
Risk Factors	There are certain factors that may affect the Issuer and/or the Guarantor's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are set out under the section entitled "*Risk Factors*" in this Offering Circular and include, among other things, the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of the Notes and certain market risks.
Description of Notes	US$400,000,000 principal amount of 6.00 per cent. Guaranteed Notes due 2023 (the "**Notes**"), to be issued by the Issuer on or about 18 October 2013 (the "**Issue Date**").
Joint Lead Managers	ABCHK, BOCHK, CCBI, CICC, Credit Suisse and J.P. Morgan
Co-Manager	Taiping Securities (HK) Co Limited.
Interest	The Notes bear interest at the rate of 6.00 per cent. per annum from and including the Issue Date, payable semi-annually in arrears on 18 April and 18 October in each year. The first payment will be made on 18 April 2014.
Issue price	100 per cent.
Redemption at Maturity	Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 18 October 2023.

Redemption for tax reasons.........	If (i) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts where a payment in respect of the Notes (or the Guarantees, as the case may be) then due. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons*" in this Offering Circular.
Redemption for Change of Control....................	If a Change of Control (as defined in the *"Terms and Conditions of the Notes"*) occurs with respect to the Guarantor, each Noteholder shall have the right, at such Noteholder's option, to require the Issuer to redeem all of such Noteholder's Note(s) in whole but not in part on the Change of Control Redemption Date (as defined in the *Terms and Conditions of the Notes*) at the Change of Control Redemption Amount (as defined in the *"Terms and Conditions of the Notes*"). See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Change of Control"* in this Offering Circular.
Events of Default.........................	Events of Default under the Notes include, without limitation, non-payment of principal for seven days; non-payment of interest for 14 days; breach of other obligations under the Notes or the Guarantee (which breach is not remedied within 30 days of notice by a Noteholder requiring the default to be remedied); an event of default (however described) relating to the Issuer, the Guarantor or any Principal Subsidiaries in respect of any Indebtedness for Borrowed Money (as defined in the *"Terms and Conditions of the Notes"*) amounting to at least US$15,000,000 or its equivalent in aggregate; and certain events related to insolvency or winding up of the Issuer, the Guarantor or any Principal Subsidiary. The holder of any Note may by notice to the Issuer declare that the Note is immediately due and repayable whereupon it shall become immediately due and repayable at its principal amount, together with interest accrued to the date of repayment if any Event of Default occurs and is continuing. See "*Terms and Conditions of the Notes – Events of Default*" in this Offering Circular.
Negative Pledge...........................	The Terms and Conditions of the Notes contain a negative pledge provision, as further described in "*Terms and Conditions of the Notes – Negative Pledge*" in this Offering Circular.

Guarantee	The Notes will be unconditionally and irrevocably guaranteed by the Guarantor. The payment obligations of the Guarantor under its guarantee will be direct, unconditional and (subject to the provisions of Condition 7.1.2 (*Negative Pledge*) set out in "*Terms and Conditions of the Notes – Negative Pledge*" in this Offering Circular) unsecured and unsubordinated obligations of the Guarantor and will rank *pari passu* and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.
Status of the Notes	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 7.1.1 (*Negative Pledge*) set out in "*Terms and Conditions of the Notes – Negative Pledge*" in this Offering Circular) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Meetings of Noteholders	The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority, as further described in "*Terms and Conditions of the Notes – Meetings of Noteholders, Modification, Waiver and Authorisation*".
Withholding Tax and Additional Amounts	The Issuer will pay such additional amounts as may be necessary in order that the net amounts received by Noteholders in respect of the Notes, after withholding for any taxes imposed by tax authorities in any Relevant Jurisdiction (as defined in the *"Terms and Conditions of the Notes"*) upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such withholding taxes, subject to certain exceptions, as described in "*Terms and Conditions of the Notes – Taxation*" in this Offering Circular.
Listing	Application has been made for the listing of and permission to deal in the Notes on the Hong Kong Stock Exchange.
Governing Law	The Notes and the Guarantee, and any non-contractual obligations arising out of or in connection therewith, shall be governed by, and construed in accordance with, English law.

Form	The Notes will be issued in registered form in denominations of US$200,000 each and integral multiples of US$1,000 in excess thereof. Upon issue, the Notes will be represented by the Global Certificate, which on or about the Issue Date will be deposited with and registered in the name of a nominee for a common depositary of Euroclear and Clearstream, Luxembourg. The purchase, sale and transfer of Notes may only be effected through accounts at Euroclear and Clearstream, Luxembourg.
Credit Ratings	The Notes are expected to be assigned on issue a rating of "BBB+" by Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Notes in, among others, the United States, European Economic Area or the United Kingdom and Hong Kong. For a description of the selling restrictions on offers, sales and deliveries of the Notes, see the section entitled "*Subscription and Sale*" in this Offering Circular.
Use of Proceeds	The net proceeds of the issue of the Notes will be used by the Company's principal subsidiaries for general corporate purposes. See the section entitled "*Use of Proceeds*" in this Offering Circular.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with the circular published by CTIH on 31 May 2013 relating to the Restructuring (as defined in "*Description of the Group – Restructuring*" in this Offering Circular) on the Stock Exchange (the "**May 2013 Circular**"), which shall be deemed to be incorporated in, and to form part of, this Offering Circular.

Copies of the May 2013 Circular may be downloaded free of charge from CTIH's and the Stock Exchange's websites at www.ctih.cntaiping.com and www.hkexnews.hk.

SELECTED FINANCIAL INFORMATION

The following tables set forth the Group's selected consolidated financial information as at and for the periods indicated.

The selected consolidated financial information as at and for the years ended 31 December 2010, 2011 and 2012 set forth below is derived from and should be read in conjunction with the Group's audited consolidated financial statements for the years ended 31 December 2011 and 2012, including the notes thereto, which have been audited by Deloitte Touche Tohmatsu, and which are included elsewhere in this Offering Circular. The selected consolidated financial information as at and for the six months ended 30 June 2012 and 2013 set forth below is derived from and should be read in conjunction with the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2013, including the notes thereto, which have been reviewed by Deloitte Touche Tohmatsu, and which are included elsewhere in this Offering Circular.

The Group's consolidated financial statements are prepared and presented in accordance with HKFRS.

Consolidated Income Statement

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
		(restated*)			
		(audited)		(unaudited)	
			(in HK$ millions)		
Revenue					
Gross premiums written and policy fees	49,632.8	51,106.1	61,163.2	32,085.0	51,165.3
Less: Premiums ceded to reinsurers and retrocessionaires	(2,225.1)	(2,261.6)	(2,663.1)	(1,464.3)	(1,751.2)
Net premiums written and policy fees	47,407.7	48,844.5	58,500.1	30,620.7	49,414.1
Change in unearned premium provisions, net of reinsurance	(829.5)	(538.2)	(1,121.4)	(969.0)	(1,278.0)
Net earned premiums and policy fees	46,578.2	48,306.3	57,378.7	29,651.7	48,136.1
Net investment income	4,427.8	6,043.4	8,717.7	3,843.7	4,855.4
Net unrealized investment gains/(losses) and impairment	1,776.2	549.4	(2,001.7)	(803.5)	160.5
Other income	164.0	982.9	707.4	226.7	316.2
Other losses	–	–	–	(36.7)	(14.6)
	52,946.2	55,882.0	64,802.1	32,881.9	53,453.6
Benefits, losses and expenses					
Net policyholders' benefits	(10,162.6)	(12,204.1)	(15,925.1)	(7,492.7)	(9,950.2)
Net commission expenses	(4,208.1)	(4,514.7)	(5,217.5)	(2,648.1)	(4,263.8)
Change in life insurance contract liabilities, net of reinsurance	(27,377.0)	(27,158.7)	(30,274.3)	(16,181.2)	(31,227.7)
Administrative and other expenses	(8,509.5)	(9,074.6)	(10,981.3)	(4,769.8)	(6,547.9)
Total benefits, losses and expenses	(50,257.2)	(52,952.1)	(62,398.2)	(31,091.8)	(51,989.6)
Profit from operations	2,689.0	2,929.9	2,403.9	1,790.1	1,464.1
Share of results of associates	17.4	30.6	93.1	32.9	25.2
Share of result of a joint venture	–	–	–	–	–
Gain on disposal of a subsidiary	1,263.1	–	–	–	–
Finance costs	(405.7)	(635.0)	(705.7)	(348.9)	(410.9)
Profit before taxation	3,563.8	2,325.5	1,791.3	1,474.1	1,078.4
Income tax credit/(charge)	(331.1)	(317.8)	86.2	(284.7)	(252.2)
Profit for the year/period	3,232.7	2,007.7	1,877.5	1,189.4	826.2
Attributable to					
Owners of the Company	1,666.9	1,357.9	957.8	509.5	413.8
Non-controlling interests	1,565.8	649.8	919.7	679.9	412.4

Consolidated Statements of Financial Position

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	(restated*)	(restated*)		
		(audited)		(unaudited)
		(in HK$ millions)		
Assets				
Statutory deposits	1,525.6	2,405.9	2,606.4	4,577.5
Property and equipment	3,802.2	4,460.4	4,621.4	4,809.6
Investment properties	4,813.2	8,229.1	9,293.7	9,868.3
Prepaid lease payments	693.8	167.8	164.2	165.3
Goodwill	1,051.2	1,051.2	1,051.2	1,051.2
Intangible assets	261.4	264.8	264.5	263.4
Interests in associates	786.4	805.0	840.9	858.3
Interest in a joint venture	–	0.2	0.2	0.2
Construction in progress	707.2	112.0	115.7	146.6
Properties held for sale	0.2	9.4	–	–
Investments in debt and equity securities	104,780.5	132,420.9	161,752.0	187,318.8
Securities purchased under resale agreements	53.5	119.3	80.2	2,437.5
Insurance debtors	1,591.4	2,270.1	2,834.5	3,695.5
Reinsurers' share of insurance contract provisions	2,441.4	3,005.0	3,047.1	3,160.3
Policyholder account assets in respect of unit-linked products	4,909.3	3,729.1	3,141.1	2,928.5
Other debtors	6,122.7	5,399.6	8,493.1	13,425.5
Amounts due from group companies	2,300.9	2,655.1	2,991.0	4,233.5
Tax recoverable	3.1	–	25.7	32.2
Deferred tax assets	153.4	159.3	144.0	155.1
Pledged deposits at banks	229.5	256.0	295.4	295.8
Deposits at banks with original maturity more than three months	11,626.5	17,704.3	36,444.8	35,883.5
Cash and cash equivalents	17,952.6	19,974.5	19,652.0	17,030.3
	165,806.0	205,199.0	257,859.1	292,336.9
Asset classified as held for sale	11.1	–	–	–
Total assets	**165,817.1**	**205,199.0**	**257,859.1**	**292,336.9**
Liabilities				
Life insurance contract liabilities	60,391.6	91,196.0	121,422.8	154,887.0
Unearned premium provision	4,396.7	5,160.0	6,655.6	8,337.8
Provision for outstanding claims	8,783.1	10,539.5	11,324.4	11,656.1
Investment contract liabilities	36,278.2	31,368.5	25,981.7	22,505.2
Securities sold under repurchase agreements	9,830.0	19,618.9	35,426.8	29,577.2
Interest-bearing notes	10,231.1	11,040.7	13,334.7	13,489.4
Bank loans and other borrowings	4,127.8	3,729.6	4,330.0	7,156.2
Insurance creditors	2,057.7	3,128.1	4,603.0	4,996.0
Other creditors and accrued charges	3,055.4	4,030.9	4,600.0	4,795.3
Amounts due to group companies	–	45.1	36.6	189.5
Current taxation	501.4	363.1	329.1	402.5
Deferred tax liabilities	1,965.3	1,290.0	1,711.8	2,030.2
Insurance protection fund	50.3	33.8	62.5	83.8
Derivative financial instruments	99.3	45.0	6.5	3.3
Total liabilities	**141,767.9**	**181,589.2**	**229,825.5**	**260,109.5**
Net assets	**24,049.2**	**23,609.8**	**28,033.6**	**32,227.4**
Capital and reserves				
Share capital	3,594.5	3,594.5	3,594.5	3,594.5
Reserves	8,737.2	9,276.2	10,998.5	13,046.0
Equity attributable to owners of the Company	**12,331.7**	**12,870.7**	**14,593.0**	**16,640.5**
Employee share-based compensation reserve of a subsidiary	52.6	23.0	23.2	13.9
Non-controlling interests	11,664.9	10,716.1	13,417.4	15,573.0
Total equity	**24,049.2**	**23,609.8**	**28,033.6**	**32,227.4**

Note:

* In 2012, there was a change in the accounting policy in relation to the method of computation of unearned premium provisions for the Group's reinsurance business. In prior years, the acquisition costs of the reinsurance contracts were fully charged to profit or loss when the reinsurance contracts were entered into during the period. Under the new accounting policy, the acquisition costs of the reinsurance contracts are deferred and amortized throughout the coverage period of the reinsurance contracts in order to match with the recognition of premium written. Such deferred acquisition costs are directly deducted from the unearned premium provisions at the end of each reporting period. After the change, the method of computation of unearned premium provisions of the reinsurance business will be consistent with other insurance business of the Group and be more comparable with other industry players to provide the best estimation of insurance liabilities. Accordingly, the results for the consolidated income statement for the year ended 31 December 2011 and the consolidated statements of financial position as at 31 December 2010 and 2011 have been restated. The results for the consolidated income statement for the year ended 31 December 2010 have not been restated to reflect the impact of the changes in the accounting policy. Details of the change in the accounting policy were disclosed in note 3 of the audited consolidated financial statements for the year ended 31 December 2012 of the Group, which are included elsewhere in this Offering Circular.

RECENT BUSINESS

The summary below should be read in conjunction with the other information contained in this Offering Circular including the Group's audited consolidated financial statements for the years ended 31 December 2011 and 2012, and the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2013, which are included elsewhere in this Offering Circular.

Six months ended 30 June 2013

Total income

Total income increased by HK$20,571.8 million to HK$53,453.6 million in the six months ended 30 June 2013, an increase of 62.6% compared to HK$32,881.9 million in the six months ended 30 June 2012 (hereinafter referred to as the "**prior period**"). The increase was primarily due to an increase of HK$19,080.4 million in gross premiums written and policy fees.

Gross premiums written and policy fees

Gross premiums written and policy fees are attributable to the life insurance business, property and casualty insurance business, reinsurance business and group life insurance business.

Gross premiums written and policy fees increased by HK$19,080.4 million to HK$51,165.3 million, an increase of 59.5% compared to HK$32,085.0 million in the prior period primarily due to an increase in revenue from the life insurance business of HK$16,597.6 million or 70.2%, due to strong sales growth via both the bancassurance and individual agency force distribution channels. The amount of gross premiums written via the bancassurance channel increased to HK$25,549.3 million from HK$13,625.0 million, an increase of HK$11,924.3 million or 87.5% compared to the prior period, mainly due to an increase of HK$11,080.3 million in single premium product sales. The amount of gross premiums written via the individual agency force channel increased to HK$14,034.5 million from HK$9,487.4 million, an increase of HK$4,547.1 million or 47.9%, compared to the prior period. TPL heightened its efforts to grow its individual agency force and the number of TPL's individual agents increased by 88.6% to 109,131 as at 30 June 2013 (31 December 2012: 57,860), which enabled the sales force to generate and support higher levels of premiums.

Revenue from the property and casualty insurance business contributed an increase of HK$2,147.3 million or 37.9% compared to the prior period, primarily due to increases in gross premiums written by TPI. TPI's gross premiums written increased by HK$2,005.8 million, or 44.5%, to HK$6,513.3 million from HK$4,507.5 million in the prior period primarily due to an increase of HK$1,734.9 million in motor vehicle insurance premiums written. TPI's growth rate in gross premiums written was much higher than the industry average among property and casualty insurance companies in the PRC, which was 19.4% in 2012, according to Sigma Reports. TPI was able to increase its market share to 1.6%. CTPI (HK)'s gross premiums written increased by HK$128.9 million or 22.8% to HK$694.7 million from HK$565.8 million in the prior period. During the period, CTPI (HK) increased its motor and employee benefit insurance premiums. The marine insurance business also produced gains despite a challenging and competitive environment.

Revenue from other businesses, which primarily comprised TPP's pension and group life insurance businesses, also increased, by HK$281.5 million or 47.2%, compared to the prior period, primarily due to a 52.1% increase in revenue from the health business line of HK$205.0 million. Revenue from reinsurance was marginally higher than in the prior period.

Total investment income

Total investment income comprises income derived from invested assets and net realised and unrealised investment gains (losses) net of impairment charges.

Total invested assets comprises investments in securities, cash and cash equivalents, bank deposits and statutory deposits, and investment properties. Equity securities were maintained at a relatively low percentage of the asset allocation, while investments in debt securities and debt schemes, combined with cash and bank deposits accounted for 87.3% of total invested assets as at 30 June 2013 compared to 88.2% as at 31 December 2012.

Total invested assets increased by HK$24,930.0 million to HK$254,974.3 million as at 30 June 2013, an increase of 10.8% compared to 31 December 2012 (or an increase of 40.9% compared to 31 December 2011), primarily because of an increase of HK$25,566.8 million in investments in securities due to an increase of HK$20,930.7 million in debt securities and debt schemes, which was partially offset by a decrease of HK$2,621.8 million in cash and cash equivalents, in each case compared to 31 December 2012.

Total investment income increased by HK$1,975.7 million to HK$5,015.9 million in the six months ended 30 June 2013, an increase of 65.0% compared to the prior period, which exceeded the percentage increase in total invested assets primarily because net investment income (as described below) increased by HK$1,011.7 million to HK$4,855.4 million, an increase of 26.3% compared to the prior period. There was also a net realised and unrealised gain on investments of HK$160.5 million compared to a loss of HK$803.5 million in the prior period, a period-to-period change of HK$964.0 million. CTIH's total investment income increased by HK$2,134.6 million to HK$4,706.7 million, an increase of 83.0% compared to the prior period, as net investment income, net impairment losses and net realised investment gains all improved. There was a 27.8% increase in CTIH's net investment income of HK$1,014.5 million, a 68.5% improvement in net impairment losses of HK$605.0 million and a 163.1% increase in net realised investment gains of HK$558.1 million, in each case, compared to the prior period. Despite the poor performance of the PRC and Hong Kong equity markets, CTIH's investment portfolio achieved net investment gains (compared to losses in the prior period) and a lower level of net impairment loss, leading to a higher total investment yield (annualised) of 4.4% compared to 3.8% in the prior period. The annualised net investment yield derived by CTIH from net investment income was 4.4% which was the same as for the prior period.

Net investment income comprises interest income from debt securities and debt schemes, dividend income from equity securities and investment funds, bank and other interest income, net rental income from investment properties and net interest expenses on repurchase transactions.

Net investment income increased by HK$1,011.7 million to HK$4,855.4 million in the six months ended 30 June 2013, an increase of 26.3% compared to the prior period partly because of the increase in total invested assets but also because interest income from debt securities increased by HK$732.7 million, an increase of 25.2%, and interest income from bank and other deposits increased by HK$347.1 million to HK$1,121.7 million, an increase of 44.8%, in each case compared to the prior period.

Other income

Other income primarily comprises income from the provision of asset management services, property management services, insurance intermediary services, securities brokerage services and pension administration services, interest income on secured loans to policy holders and others.

Other income increased by HK$89.5 million to HK$316.2 million in the six months ended 30 June 2013, an increase of 39.5% compared to the prior period, mainly due to an increase of HK$26.9 million or 55.0% in interest income on secured loans to policy holders and an increase of HK$25.8 million or 86.9% in income from the provision of asset management services.

Profit after taxation

Profit after taxation decreased by HK$363.2 million to HK$826.2 million, a decrease of 30.5% compared to the prior period.

The life insurance business generated a segmental profit after taxation of HK$289.8 million, a decrease of HK$499.2 million or 63.3% compared to the prior period. The decrease in net operating profit was due to significantly higher levels of single premium sales via the bancassurance channel, which have lower profit margins.

The property and casualty insurance business generated a segmental profit after taxation of HK$462.4 million in the six months ended 30 June 2013, an increase of HK$67.8 million or 17.2% compared to the prior period, mainly due to net operating profit recorded by TPI of HK$209.3 million, an increase of HK$94.6 million, which was partially offset by a decrease of HK$23.1 million in net operating profit recorded by CTPI (HK) due to lower real estate related investment gains compared to the prior period.

The reinsurance business generated a segmental profit after taxation of HK$195.1 million in the six months ended 30 June 2013, an increase of HK$270.7 million or 358.1% compared to a loss of HK$75.6 million, in the prior period. As revenue was only marginally higher than in the prior period, the key difference between the two periods was that no claims from major loss events were made in the six months ended 30 June 2013, whereas in the prior period a number of late claim notifications were made in respect of the floods in Thailand in 2011.

Other businesses generated a segmental loss after taxation of HK$49.7 million in the six months ended 30 June 2013, compared to a segmental profit after taxation of HK$161.3 million for the prior period, a period-to-period decrease of HK$211.0 million primarily due to an increase in administrative expenses and finance costs. TPP recorded breakeven results during the six months ended 30 June 2013, eight years after commencing operations, as the pension and group life business began to attain economies of scale.

Year ended 31 December 2012

Total income

Total income increased by HK$8,920.1 million to HK$64,802.1 million in 2012, an increase of 16.0% compared to HK$55,882.0 million in the prior year. The increase was primarily due to an increase of HK$10,057.1 million in gross premiums written and policy fees which was partially offset by realised and unrealised investment losses and impairment charges of HK$2,001.7 million compared to a gain of HK$549.4 million in the prior year, a year-to-year change of HK$2,551.1 million.

Gross premiums written and policy fees

Gross premiums written and policy fees increased by HK$10,057.1 million to HK$61,163.2 million in 2012, an increase of 19.7% compared to HK$51,106.1 million in the prior year. The increase in gross premiums written and policy fees of HK$10,057.1 million was primarily due to an 17.9% increase in revenue from the life insurance business of HK$6,815.4 million, and a 30.8% increase in revenue from the property and casualty insurance business of HK$2,753.9 million, in each case, compared to the prior year.

The 17.9% increase in revenue from the life insurance business of HK$6,815.4 million was primarily driven by TPL's improved individual agency force sales, which offset continued low levels of sales via its bancassurance channel. The amount of gross premiums written via the individual agency force channel increased to HK$18,243.2 million from HK$14,409.8 million, an increase of HK$3,833.4 million or 26.6%, compared to the prior year. TPL had heightened its efforts to grow its individual agency force, and the number of TPL's individual agents increased by 25.6% to 57,860 as at 31 December 2012 (2011: 46,064) which allowed the sales force to generate and support higher levels of premium. The amount of gross premiums written via the bancassurance channel increased to HK$25,399.5 million from HK$22,294.6 million, an increase of HK$3,104.9 million or 13.9%, compared to the prior year, mainly due to an increase of HK$2.461.9 million in renewals of regular premium products and an increase of HK$986.1 million in single premium product sales.

The 30.8% increase in revenue from the property and casualty insurance business of HK$2,753.9 million was primarily due to increases in gross premiums written by TPI. TPI's gross premiums written increased by HK$2,553.5 million, or 36.5%, to HK$9,547.8 million from HK$6,994.3 million in the prior year primarily due to an increase of HK$2,154.4 million in motor vehicle insurance premiums written. TPI's growth rate was much higher than the industry average among property and casualty insurance companies in the PRC, which was 19.4% in 2012, according to Sigma Reports. TPI was able to increase its market share to 1.4%. CTPI (HK)'s gross premiums written increased by HK$105.6 million or 11.3% to HK$1,041.5 million from HK$935.9 million in the prior year as Hong Kong's continued strength in its economy and activity helped to grow the property and casualty insurance sector.

Revenue from other businesses, which primarily comprised TPP's pension and group life insurance businesses, also increased, by HK$494.3 million or 77.1% in 2012, compared to the prior period, primarily due to a 127.0% increase in the health business line of HK$403.6 million. Revenue from reinsurance was marginally higher than in the prior year.

Total investment income

Total invested assets comprises investments in securities, cash and cash equivalents, bank deposits and statutory deposits, and investment properties. Equity investments were maintained at a relatively low percentage of the asset allocation, while investments in debt securities and debt schemes, combined with cash and bank deposits accounted for 88.2% of the total invested assets as at 31 December 2012, as compared to 87.1% as at the prior year end.

Total invested assets increased by HK$49,053.6 million to HK$230,044.3 million as at 31 December 2012, an increase of 27.1% compared to the prior year end, primarily because of (i) an increase of HK$29,331.1 million in investments in securities due to an increase of HK$26,512.8 million in debt securities and debt schemes and (ii) an increase of HK$18,980.3 million in deposits at banks due to an increase of HK$18,740.5 million in interest bearing deposits with original maturity of more than three months, in each case, compared to the prior year end.

Total investment income increased by HK$123.2 million to HK$6,716.0 million in 2012, an increase of 1.9% compared to the prior year due to the increase of HK$2,674.3 million in net investment income (as discussed below), which was largely offset by net realised and unrealised investment losses and impairment charges of HK$2,001.7 million compared to a gain of HK$549.4 million in the prior year, a change of HK$2,551.1 million. CTIH's total investment income increased by HK$707.3 million to HK$5,903.8 million, an increase of 13.6% compared to the prior year as a 44.3% increase in net investment income of HK$2,545.8 million was largely offset by an adverse change of HK$1,184.0 million in net realised investment losses and a 115.5% increase of HK$923.3 million in net impairment losses due to volatile equity market conditions in the PRC, in each case, compared to the prior year. Although equity investments were maintained at a relatively low percentage of the asset allocation, the volatile equity market conditions in the PRC increased net realised investment losses and impairment losses in the equity investment portfolio, leading to a lower total investment yield derived by CTIH of 3.4% compared to 3.5% in the prior year. The net investment yield derived by CTIH from net investment income was 4.9%, compared to 4.0% in the prior year.

Net investment income increased by HK$2,674.3 million to HK$8,717.7 million in 2012, an increase of 44.3% compared to the prior year partly because of the increase in total invested assets but also because (i) interest income from debt securities and debt schemes increased by HK$1,383.4 million, an increase of 29.6%, (ii) interest income from bank and other deposits increased by HK$891.4 million to HK$1,979.2 million, an increase of 81.9%, primarily due to an increase of deposits at banks with original maturity of more than three months and (iii) dividend income from direct equity securities and investment funds increased by HK$585.3 million to HK$933.4 million, an increase of 168.1%, in each case, compared to the prior year.

Other income

Other income decreased by HK$275.5 million to HK$707.4 million in 2012, a decrease of 28.0% compared to the prior year, primarily as a result of the inclusion in the prior year of a one-off gain on a disposal of associates of HK$386.2 million.

Profit after taxation

Profit after taxation decreased by HK$130.2 million to HK$1,877.5 million in 2012, a decrease of 6.5% compared to the prior year.

The life insurance business generated a segmental profit after taxation of HK$861.8 million in 2012, an increase of HK$99.5 million or 13.1% compared to the prior year as the 17.9% increase in revenue from the life insurance business of HK$6,815.4 million was partially offset by an increase in net realised and unrealised investment losses and impairment charges of HK$2,141.7 million or 435.9% and an increase of HK$2,501.0 million or 40.4% in expenses attributable to net policy benefits, in each case, compared to the prior year.

The property and casualty insurance business generated a segmental profit after taxation of HK$883.3 million, an increase of HK$332.3 million or 60.3% compared to the prior year, mainly due to net operating profit recorded by CTPI (HK) of HK$531.5 million, an increase of HK$185.9 million compared to the prior year and net operating profit recorded by TPI of HK$239.5 million, an increase of HK$86.9 million compared to the prior year.

The reinsurance business generated a segmental profit after taxation of HK$112.1 million in 2012, an increase of HK$154.0 million compared to a segmental loss after taxation of HK41.9 million for the prior year. This turnaround in profitability was mainly due to reinforced risk controls in relation to reinsurance underwriting activity, an absence of major catastrophe loss events during the year and strong investment income. These positive results offset the underwriting deficit which was caused by the sharp deterioration during the first half of the year from late claims notifications in respect of losses from floods in Thailand in 2011.

Other income generated a segmental profit after taxation of HK$147.1 million in 2012, a decrease of HK$1,198.0 million or 89.1% compared to the prior year. Although gross premiums written and policy fees from this segment increased by HK$494.3 million, an increase of 77.1%, net realised and unrealised gains on investments decreased by HK$768.8 million and other income decreased by HK$688.9 million, in each case compared to the prior year. TPP's pension and group life insurance businesses incurred a net operating loss of HK$128.6 million (2011: HK$193.9 million). The loss was mainly due to the continued lack of economies of scale at the operations of the pensions and group life insurance businesses, which was still in its early stages of development.

Year ended 31 December 2011

Total income

Total income increased by HK$2,935.9 million to HK$55,882.0 million in 2011, an increase of 5.5% compared to HK$52,946.2 million in the prior year. The increase was primarily due to an increase of HK$1,473.3 million in gross premiums written and policy fees, an increase of HK$819.1 million in other income, and an increase of HK$388.8 million in total investment income.

Gross premiums written and policy fees

Gross premiums written and policy fees increased by HK$1,473.3 million to HK$51,106.1 million in 2011, an increase of 3.0% compared to HK$49,623.8 million in the prior year. The slowdown in the growth of gross premiums written and policy fees compared to the prior year was partly due to a tightening environment in the PRC which included increases in bank interest rates and reserve requirements during the course of the year to dampen inflation. These difficult microeconomic conditions resulted in lower levels of premium growth at the life insurance business, particularly in the bancassurance channel. The increase in gross premiums written and policy fees of HK$1,473.3 million was primarily due to an increase in revenue from the life insurance business of HK$919.0 million, an increase in revenue from the reinsurance business of HK$781.4 million, and an increase in revenue from other businesses, mainly the group life insurance business, of HK$616.1 million, in each case compared to the prior year. Those increases were partially offset by a decrease in revenue from the property and casualty insurance business of HK$801.3 million, or 8.2%, primarily due to a decrease of HK$1,919.3 million in gross premiums written compared to the prior year by The Ming An Insurance Company (China) Limited in respect of which the Company ceased to have control with effect from 31 December 2010. The loss of gross premiums written by The Ming An Insurance Company (China) Limited was partially offset by increases in gross premiums written by TPI and CTPI (HK) of HK$859.6 million and HK$123.9 million, respectively.

Total investment income

Total invested assets comprises investments in securities, cash and cash equivalents, bank deposits and statutory deposits, and investment properties. Equity investments were maintained at a relatively low percentage of the asset allocation, while investments in debt securities and debt schemes, combined with cash and bank deposits accounted for 87.1% of total invested assets as at 31 December 2011 compared to 84.2% as at the prior year end.

Total invested assets increased by HK$40,062.9 million to HK$180,990.8 million, an increase of 28.4% compared to the prior year end, primarily because of (i) an increase of HK$27,640.4 million in investments in securities due to an increase of HK$29,923.8 million in debt securities and debt schemes and (ii) an increase of HK$6,984.7 million in deposits at banks primarily due to an increase of HK$6,077.8 million in interest bearing deposits with original maturity of more than three months, in each case, compared to the prior year end.

Total investment income increased by HK$388.8 million to HK$6,592.8 million in 2011, an increase of 6.3% compared to the prior year, as the increase of HK$1,615.5 million in net investment income (as discussed below) compared to the prior year was largely offset by lower net realised and unrealised investment gains and impairment charges of HK$549.4 million, a decrease of HK$1,226.8 million compared to the prior year. CTIH's total investment income decreased by HK$283.4 million to HK$5,196.6 million, a decrease of 5.2% compared to the prior year as a 36.4% increase in net investment income of HK$1,534.8 million was more than offset by a 94.9% decrease of HK$1,235.2 million in net realised investment gains and an adverse change of HK$615.2 million in net impairment losses (an increase of 3.3 times), in each case, compared to the prior year. Although equity investments were maintained at a relatively low percentage of the asset allocation, the volatile equity market conditions in the PRC increased the net realised investment losses and impairment losses of the equity investment portfolio, leading to a total investment yield derived by CTIH of 3.5%. The net investment yield derived by CTIH from net investment income was 4.0%.

Net investment income increased by HK$1,615.5 million to HK$6,043.4 million in 2011, an increase of 36.5% compared to the prior year partly because of the increase in total invested assets but also because interest income from debt investments and debt schemes increased by HK1,342.5 million, an increase of 40.3% compared to the prior year. Interest income from bank and other deposits increased by HK$471.3 million to HK$1,087.8 million, an increase of 76.5% compared to the prior year, primarily due to an increase of deposits at banks with original maturity of more than three months, and gross rental income from investment properties increased by HK$60.5 million to HK$197.0 million, an increase of 44.3% compared to the prior year. These increases were partially offset by a decrease of HK$110.3 million in dividend income from direct equity securities and investment funds.

Other income

Other income increased by HK$819.1 million to HK$983.0 million, an increase of 499.8% compared to the prior year, primarily as a result of the inclusion of a one-off gain of HK$386.2 million from a disposal of associates and a one-off year-to-year change of HK$208.9 million relating to a net foreign exchange gain of HK$66.5 million compared to a net foreign exchange loss of HK$142.4 million in the prior year. In addition, income from the provision of asset management and property management services increased by HK$56.5 million.

Profit after taxation

Profit after taxation decreased by HK$1,224.9 million to HK$2,007.7 million in 2011, a decrease of 37.9% compared to the prior year.

The life insurance business generated a segmental profit after taxation of HK$762.3 million, a decrease of HK$326.7 million or 30.0% compared to the prior year as the increases in revenue of HK$919.0 million and net investment income of HK$1,442.3 million were more than offset by increases in expenses attributable to net policy benefits of HK$1,532.2 million and a decrease in net realised and unrealised investment gains and impairment charges of HK$1,392.0 million, in each case, compared to the prior year.

The property and casualty insurance business generated a segmental profit after taxation of HK$551.0 million, an increase of HK$164.6 million or 42.6% compared to the prior year, mainly due to (i) an increase of HK$95.6 million in net operating profit recorded by TPI, which was partially offset by a decrease of HK$16.8 million in net operating profit recorded by CTPI (HK) primarily due to a one-off additional provision for certain offshore investment income earned in prior years, in each case compared to the prior year and (ii) a loss of HK$80.8 million in the year ended 31 December 2011 from the disposal of The Ming An Insurance Company (China) Limited.

The reinsurance business generated a segmental loss after taxation of HK$41.9 million, a year-to-year decrease of HK$414.5 million. TPRe's net operating loss was mainly caused by significant claims from natural catastrophes which occurred during 2011 (flooding in Thailand, the earthquake and tsunami in Japan and the earthquake in Christchurch, New Zealand).

Other businesses generated a segmental profit after taxation of HK$1,345.1 million, a decrease of HK$363.9 million or 21.3% compared to the prior year. Although revenue from other businesses increased by HK$616.1 million, net realised and unrealised investment gains increased by HK$570.4 million and other income increased by HK$873.0 million, in each case compared to the prior year. TPP's pension and group life insurance businesses incurred a net operating loss of HK$193.9 million (2010: HK$179.6 million). The loss was mainly due to the continued lack of economies of scale at the operations of the pensions and group life insurance businesses, which was in its early stages of development.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The Issuer and the Guarantor believe that the following factors may affect their ability to fulfill their obligations under the Notes and the Guarantee. All of these factors are contingencies which may or may not occur and the Issuer and the Guarantor are not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the risks associated with the Notes and the Guarantee are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or the Guarantor to pay principal, interest (if any) or other amounts or fulfill other obligations on or in connection with the Notes and the Guarantee may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding the Notes are exhaustive.

Risk Factors Relating to the Business of the Group

The Group's risk management and internal control systems may be inadequate or ineffective in identifying or mitigating risks that it is exposed to.

The Group has established risk management and internal control systems consisting of organisational framework, policies, procedures and risk management methods, which are believed to be appropriate for the Group's business operations, and the Group further seeks to continue to improve these systems. However, due to the inherent limitations in the design and implementation of risk management and internal control systems, including identification and evaluation of risks, internal control variables and the communication of information, there is no assurance that such systems will be able to identify, mitigate and manage exposures to risks. In addition, as some of the Group's risk management and internal control policies and procedures are relatively new, and given the state of constant, rapid change in the economy, insurance industry and financial markets in the PRC, where the majority of the Group's business originates, as well as the rapid change and growth in the Group's operations both in and outside the PRC, the Group requires more time to fully evaluate and assess their adequacy and effectiveness. As a result, the Group may need to establish and implement additional risk management and internal control policies and procedures to further improve the Group's systems from time to time.

The Group implements its risk management and internal controls by using a series of risk management methods. These methods suffer from inherent limitations as they are generally based on statistical analysis of historical data as well as the assumption that future risks will share similar characteristics with past risks. There is no assurance that such assumption is accurate. The Group's information technology system may not be adequate in the collection, analysis and processing of data, and the Group's historical data and experience may not be able to adequately reflect risks that may emerge from time to time in the future. Moreover, the Group's information technology system may not have enough capacity to handle the rapid growth of the Group's businesses. As a result, the Group's risk management methods and techniques may not be effective in directing the Group to take timely and appropriate measures in risk management and internal controls.

The Group's risk management and internal controls also depend on their effective implementation by the Group's employees. Due to the size of the Group's operations and the rapid growth of the Group's operations, the Group's large and expanding number of agents, professionals and personnel and the number of the Group's branch entities and marketing centres, there is no assurance that such implementation will not involve any human errors or mistakes, which may materially and adversely affect the Group's business and results of operations.

As the regulatory framework of the PRC insurance industry continues to be liberalised and the PRC insurance market continues to develop, the Group is likely to offer a broader and more diverse range of insurance products and invest in a significantly broader range of asset classes in the PRC. The Group's limited experience in promoting new insurance products and investing in other asset classes that may be permitted now and in the future, however, may result in the Group being adversely affected by unsuccessfully promoting new products, adopting inadequate investment strategies or making poor investment decisions. Meanwhile, the diversification of the Group's insurance product offerings and investments will require the Group to continue to enhance the Group's risk management capabilities. If the Group fails to implement timely adaptations to its risk management policies and procedures to the Group's changing business, the Group's business, results of operations and financial condition could be materially and adversely affected.

Volatility in interest rates, and the current low interest rates in certain markets, could have an adverse effect on the Group's business, financial condition, liquidity and results of operations.

The profitability of some of the Group's products and the Group's investment returns are highly sensitive to interest rate levels and fluctuations, and changes in interest rates could adversely affect the Group's investment returns and results of operations. In periods of rising interest rates, increased investment yields will increase the returns on newly added assets in the Group's investment portfolios, but surrenders and withdrawals of existing insurance policies may also increase as policyholders seek to buy products with perceived higher returns. These surrenders and withdrawals may result in cash payments requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, potentially resulting in realised investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a potential decrease in net income. In addition, the demand for the Group's life insurance products, in particular the long-term savings type policies, may decrease as investors seek more profitable alternatives. Moreover, a rise in interest rates would adversely affect the Group's shareholders' equity in the immediate fiscal year due to a decrease in the fair value of the Group's fixed income investments. Such adverse effects would directly and adversely impact the solvency margin ratio of the Group's insurance operations both in and outside the PRC.

Conversely, if interest rates decrease or remain at low levels, the Group may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, reducing the Group's investment margin and adversely affecting the Group's profitability. Moreover, borrowers may prepay or redeem fixed income securities and commercial or other loans in the Group's investment portfolio with greater frequency in order to borrow at lower market rates, which exacerbates this risk. In addition, during periods of declining interest rates, life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible premium features, repayment of policy loans and increased persistency, or a higher percentage of insurance policies remaining in-force from year to year, during a period when the Group's new investments carry lower returns. Accordingly, low or declining interest rates may materially affect the Group's results of operations, financial position and cash flows and significantly reduce the Group's profitability.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, trade surpluses and deficits, regulatory requirements and other factors beyond the Group's control. For example, it is widely expected that global interest rates will increase in response to the "possible" tapering, or phasing out, of the Federal Reserve's quantitative easing programme. Any such government measures in response to changes in the macroeconomic environment may have a material adverse effect on the Group's business, financial condition and results of operations.

If the Group does not match closely the duration of the Group's assets and liabilities, the Group will be subject to increased interest rate risk, which may have a material adverse effect on the Group's business, results of operations and financial condition.

Like other insurance companies, the Group seeks to manage interest rate risk through matching, to the extent possible, the average duration of the Group's investment assets and the corresponding insurance policy liabilities they support. Matching the duration of the Group's assets to their related liabilities reduces the Group's exposure to changes in interest rates because the effect of the changes will largely be offset against each other. However, for the Group's operations and business in the PRC, due to the foreign exchange restrictions in the PRC, the restrictions under the PRC Insurance Law and related regulations on the asset classes in which the Group may invest, as well as the limited availability in the PRC capital markets of long duration investment assets capable of matching the duration of the Group's liabilities, the Group may not be able to match the duration of the Group's investment assets and the corresponding insurance policy liabilities, in particular, the Group's liabilities in its life insurance operations.

Moreover, the PRC financial markets currently do not yet provide enough financial derivative products for the Group to hedge its interest rate risk. With the gradual easing of the investment restrictions imposed on insurance companies in the PRC and the increase in the types of investment products available in the PRC capital markets, the Group's ability to match the duration of the Group's assets to that of the Group's liabilities is likely to improve. However, due to the Group's limited expertise and experience in investing in financial derivative products and new investment products, the Group may be unable to adequately utilise such financial instruments and may face new and heightened risks as the risk and liquidity profiles of such financial instruments may be significantly different from those of the investment products the Group traditionally invests in. If the Group is unable to match closely the duration of the Group's assets and liabilities, however, the Group will continue to be exposed to risks related to interest rate changes, which would materially and adversely affect the Group's results of operations and financial condition.

Differences between actual claims experience and the assumptions used in pricing and setting reserves for the Group's insurance and pension products may materially and adversely affect the Group's results of operations and financial condition.

The Group's earnings depend significantly on the extent to which the Group's actual benefits, claims results and pension liabilities are consistent with the assumptions and estimates the Group uses, such as expected investment return, loss ratio, expense ratio, mortality, morbidity and lapse and surrender rates, among other assumptions, in setting the prices of and establishing the reserves for the Group's products. If the Group's actual experience differs unfavourably from the estimates and assumptions used in the Group's pricing and reserving, the profitability of the Group's insurance and pension products may be materially and adversely affected.

The Group prices its products based on a number of assumptions and estimates that the Group derives from the Group's historical experience data, industry data, past and then current market conditions and relevant regulations, among others. If the actual market conditions following the launch of the Group's products are significantly less favourable than the Group's assumptions and estimates used in pricing, the distribution and the profitability of the Group's products may be materially and adversely affected, which may, in turn, materially and adversely affect the Group's results of operations and financial condition.

The Group establishes reserves for its products based on relevant regulatory requirements and experience data of the insurance industry and the Group itself. However, estimation of reserves is a complex process, involving many variables and subjective judgments, due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims. The estimated amounts may deviate significantly from the actual amounts. If the reserves originally established prove to be inadequate, the Group must incur additional expenses in the form of claims and payments, to the extent the actual amounts exceed the estimated amounts, or the Group may be required to increase its reserves for future policy benefits, resulting in additional expenses in the period during which the reserves are established or re-estimated, which may have a material adverse effect on the Group's results of operations and financial condition.

Catastrophic events, which are unpredictable by nature, could materially and adversely affect the Group's profitability and financial condition.

The Group's life, property and casualty and reinsurance businesses are exposed to risks of unpredictable liabilities for insurance claim payments arising out of catastrophic events, which can be unpredictable by nature. Catastrophes can be caused by various natural hazards, including heavy rains, hurricanes, typhoons, floods, earthquakes, severe weather, fires and explosions. Catastrophes can also be man-made, such as terrorist attacks, wars and industrial or engineering accidents. In addition, a health epidemic or pandemic such as severe acute respiratory syndrome, or SARS, the H5N1 strain of bird flu, or avian influenza such as H7N9 or H1N1 can adversely affect the Group's life insurance and reinsurance businesses. Catastrophes could also result in losses in the Group's investment portfolios, due to, among other things, the failure of the Group's counterparties to perform, significant volatility or disruption in financial markets or declines in equity stock prices, and could in turn adversely affect the Group's profitability.

Over the last several years, changing climate conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world, including Asia, and have created additional uncertainties as to future trends and exposures. For example, several natural catastrophes occurred in 2011, including the widespread flooding in Thailand, the earthquake and tsunami in Japan and the earthquake in Christchurch, New Zealand. Although having several sequential and large natural catastrophes occurring in the same year in Asia is a very rare occurrence, these disasters had a pronounced effect on the Group's reinsurance business. TPRe, with most of its gross premiums written sourced from Asia, suffered losses arising from these natural catastrophes, causing it to record in 2011 its first annual loss since its founding. It is possible that both the frequency and severity of natural disasters may increase in the future. Such natural disasters may result in losses for the Group's life insurance, property and casualty insurance and reinsurance operations.

Although the Group carries some reinsurance to reduce the Group's catastrophe loss exposures, due to limitations in the underwriting capacity and terms and conditions of the reinsurance market as well as difficulties in assessing the Group's exposures to catastrophes, the reinsurance may not be sufficient to protect the Group adequately against losses. As a result, one or more catastrophic events could materially affect the Group's profits and cash flows and weaken the Group's financial condition.

Concentration of the Group's investment portfolio in any particular asset class, market or segment of the economy may increase the Group's risk of suffering investment losses.

The Group's investment portfolio is comprised primarily of debt securities, and the Group holds significant amounts of government and governmental agency bonds, financial institution bonds and corporate bonds. As a result, the Group has significant credit exposure to banking and other financial institutions and corporate issuers. In addition, the Group's life insurance and property and casualty investment portfolio principally comprises fixed income securities issued by the PRC government, PRC state-related entities and state-owned banks and deposits with PRC state-owned banks. In recent years, the Group has also made large investments in infrastructure-related bonds and debt schemes in the PRC, and is increasing its investments into real estate or real estate-related investments or schemes in the PRC. The performance of the Group's life insurance and property and casualty investment portfolio is therefore particularly sensitive to market and macroeconomic conditions in Mainland China.

Events or developments that have a negative effect on any particular industry, asset class, group of related industries, country or geographic region may have a greater negative effect on the Group's investment portfolio to the extent that the Group's portfolio is overly concentrated in the particularly affected industry or industries, asset class or geographic region. With the world's economies and financial markets increasingly interconnected and interdependent, crises in one geography or one area could now easily negatively impact other geographies or areas, in which the Group may have investment exposure. These types of concentrations in the Group's investment portfolio increase the risk that, in the event the Group experiences a significant loss in any of these investments, the Group's financial condition and results of operations would be materially and adversely affected.

In addition, there may not be a liquid trading market for certain of the Group's investments, which is in turn affected by numerous factors, including the existence of suitable buyers and market makers, market sentiment and volatility, the availability and cost of credit and general economic, political and social conditions. If the Group were required to dispose of these or other potentially illiquid assets on short notice, the Group could be forced to sell such assets at prices significantly lower than the prices the Group has recorded in its consolidated financial information.

Reinsurance may not be available, affordable or adequate to protect the Group against losses.

As part of the Group's overall risk management strategy, the Group purchases reinsurance for certain risks underwritten by the Group's life insurance, property and casualty insurance and reinsurance businesses. While reinsurance agreements generally bind the reinsurer for the life of the business reinsured at generally fixed pricing, market conditions beyond the Group's control determine the availability and cost of the reinsurance protection for new business. In certain circumstances, the price of reinsurance for business already reinsured may also increase. Any decrease in the amount of reinsurance will increase the Group's risk of loss and any increase in the cost of reinsurance will, absent an increase in the amount of reinsurance, reduce the Group's earnings. Accordingly, the Group may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the Group's ability to write future business or result in the assumption of more risk with respect to those policies the Group issues. In addition, although the Group endeavours to choose reinsurers with good credit ratings, there is no guarantee that such reinsurers will not suffer significant losses or other events rendering them unable to fully meet their obligations to the Group.

The Group is subject to exchange rate fluctuations owing to the geographical concentration of the Group's business.

The Group's operations are heavily weighted toward the PRC, where the Group generally writes policies and invests in assets denominated in RMB. In respect of the life insurance business, all of which is in the PRC, and that portion of its property and casualty insurance business which is in the PRC, premiums are received in RMB and insurance regulations in the PRC require insurers to hold RMB assets. Although this practice limits the effect of exchange rate fluctuations on the Group's local operating results, it can lead to fluctuations in the Group's consolidated financial statements because the Group publishes its financial statements in Hong Kong dollars. Exchange rate fluctuations may also affect the value (denominated in Hong Kong dollars) of the Group's investments in non-Hong Kong dollar denominated investments.

The predominance of non-guaranteed dividends on products may make the Group less competitive in the market.

The majority of the Group's insurance products have no guaranteed right to annual dividends. However, in the case of TPL, if the company earns profits from its participating business, then CIRC regulations require that no less than 70.0% of the divisible surplus from such participating business must be distributed to policyholders. In addition, TPL's products, in accordance with CIRC regulations, carry a guaranteed cash value on surrender as a percentage of the policy reserve which accrues at a rate of 2.5% or lower per annum and for which the Group must set aside adequate reserves. While the lack of guaranteed annual dividends has been beneficial to the Group by allowing the Group to use its capital more efficiently in growing the Group's premium levels, no assurance can be given that such products will continue to be popular. In the event that the Group does not pay out any dividends or insufficiently high dividends on the Group's policies in order to protect the Group's profitability, the Group may suffer from competitive pressure from competitors who continue the practice of paying out dividends on their products.

The Group may not be able to timely detect or prevent fraud or other misconduct by the Group's employees, agents, customers or other third parties in a timely manner, or at all.

The Group may be subject to fraud and other misconduct committed by the Group's employees, agents, customers or other third parties. While the Group has implemented, and continues to implement measures aimed at detecting and preventing employees' and outside parties' fraud and other misconduct, the Group may not be able to detect or prevent such fraud or misconduct in a timely fashion or in all of the Group's subsidiaries and branch entities. Moreover, given the increase in the scale of the Group's operations and in the number of the Group's employees and agents, the Group's existing measures and systems may not be able to detect or prevent such fraud or other misconduct. This may harm the Group's reputation and adversely affect the Group's business, results of operations and financial condition.

A downgrade in the ratings assigned to the Group could adversely affect the Group's ability to write new business or raise funds and may adversely impact the Group's existing business.

The Company has obtained an issuer credit rating of "BBB+" from Standard & Poor's. CTIH has obtained an issuer default rating of "BBB+" from Fitch and a long-term issuer credit rating of "BBB+" from Standard & Poor's. TPL has obtained an issuer financial strength rating of "A-" from Fitch. CTPI (HK) has obtained both an insurer financial strength rating and a counterparty credit rating of "A" from Standard & Poor's, and a financial strength rating of "A" from A.M. Best. TPRe has obtained an issuer financial strength rating of "A" from Fitch, a financial strength rating of "A-" from A.M. Best and both a financial strength rating and a counterparty credit rating of "A" from Standard & Poor's. TP Macau has obtained a financial strength rating of "A" from A.M. Best. TP Singapore has obtained a financial strength rating of "A" from A.M. Best. Ratings by these rating agencies are important factors in establishing a competitive position in the insurance industry. Financial strength ratings measure a company's ability to meet its insurance obligations. Credit ratings measure a company's ability to repay its debt obligations and directly affect the cost and availability of unsecured financing. Ratings are subject to periodic review at the discretion of the rating agencies and may be revised downward or revoked at their sole discretion. In addition, in respect of the Group's reinsurance business, the Group's own rating as a ceding company may be adversely affected by a downgrade in the rating of the Group's reinsurers.

As with other companies in the financial services industry, the Group's ratings could be downgraded at any time and without notice. There is no assurance that its group companies will improve or maintain their ratings, and any potential downgrade in the ratings assigned to its group companies by rating agencies could adversely affect the Group's business and the price of the Notes.

The Group is exposed to the risk of failures in its information technology systems.

The operation of the Group's business depends on the efficient and uninterrupted operation of its information technology systems. The Group's information technology systems are vulnerable to damage or disruption from various factors, including but not limited to, power loss, telecommunications failures, computer denial of service attacks, data corruption, network failure, computer viruses, security breaches, natural disasters, theft, vandalism, fraud or other acts not within its control. Inadequacies or failures of the Group's information technology systems could impair its collection, processing or storage of data and the day-to-day management of its business, which could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, given the increase in the scale of the Group's operations, the Group's information technology systems may not have enough capacity and capability to handle the information technology needs of a larger group.

Changes in taxation on the Group's business may materially and adversely affect the Group's business, financial condition and results of operations.

For the Group's business carried on in and from Hong Kong, the Group is subject to Hong Kong profits tax in respect of premium and investment income derived from Hong Kong at the standard rate of 16.5% on the assessable amount of such income. Profits tax at the reduced rate of 8.25% is chargeable on the Group's net income derived from reinsurance business outside Hong Kong. Income generated and capital gains from the Group's overseas investments are free from Hong Kong profits tax. In addition, a substantial proportion of the Group's revenues and profits are derived from the PRC. The Group is subject to a range of taxes in the PRC, including business and income tax. Under the EIT Law of the PRC, the enterprise income tax rate for domestic companies in the PRC is 25%, which is significantly higher than the profits tax rate to which the Group is subject in Hong Kong. However, there can be no assurance that the tax laws and practices in Hong Kong or the PRC will not be changed in the future. In the event any such changes are made that increase the Group's general taxation liability, there would be an adverse impact on the Group's financial condition and results of operations.

The Group depends on the Group's executive Directors, senior executives and other key employees for its operations and the growth potential of the Group's business. The Group also depends on its most productive and experienced individual insurance agents.

The Group's success is, to a significant extent, attributable to the Group's executive Directors, who have an in-depth knowledge and understanding of the insurance business as well as the markets in which the Group operates. The Group is also dependent on the sound underwriting, product development, risk control, business development and actuarial expertise of the Group's senior executives and other key employees. The competition for qualified technical, sales and managerial personnel in the insurance sector in Hong Kong and the PRC is intense. The Group's continuing success will depend on the Group's ability to retain and hire suitably qualified and experienced management and key employees and the loss of their services could have a material adverse effect on the Group's business, financial condition, results of operations, and prospects.

The Group also depends on experienced individual insurance agents to distribute the Group's insurance products. Because of differences in productivity, a relatively small percentage of the Group's insurance agents is responsible for a disproportionately high percentage of the Group's sales of individual products. Increasing competition for experienced individual insurance agents from insurance companies and other business institutions may also force the Group to increase the compensation of its agents, which would increase operating costs and reduce the Group's profitability. Furthermore, there can be no assurance that the Group will be able to maintain these relationships at all or only at prices that the Group would not otherwise consider adequate or by accepting risks that may be inconsistent with the Group's desired exposure profile. If the Group is unable to do so, the Group's business and results of operations may be adversely affected.

The Group expects competition in the insurance and reinsurance industries in the PRC and Hong Kong to increase, which may materially and adversely affect the growth of the Group's business.

The insurance and reinsurance businesses are highly competitive, both in and outside the PRC, which may drive the Group's pricing and profit margins lower. Competition with respect to the types of insurance and reinsurance in which the Group is engaged is based on many factors, such as underwriting expertise, reputation, market knowledge and experience in the lines written, the jurisdictions in which the insurer or reinsurer is licensed or otherwise authorised to do business, premiums charged, as well as other terms and conditions of the insurer or reinsurance offered, services offered and speed of claims payment and perceived overall financial strength of the insurer or reinsurer. The Group competes for reinsurance business throughout Asia, including Hong Kong, Macau, the PRC, and other Asian countries, as well as Europe, with numerous international and domestic reinsurance companies, some of which have greater financial resources and higher credit ratings than the Group. In the PRC, the Group competes for its life and property and casualty insurance businesses with a number of major players which have higher market share than the Group and which may have greater financial resources than the Group.

Furthermore, many PRC banks have begun, or are contemplating beginning, their own insurance operations in the country. As bancassurance has been an important distribution channel for TPL and other insurers in the industry, the entrance of banks into the insurance business directly poses challenges to the Group's long-term bank distribution strategy. As bancassurance forms a large part of TPL's premiums written, any sharp decrease in the bancassurance channel or any increases in commissions to be paid to banks could negatively impact the earnings and financial position of the Group. In Hong Kong, the Group competes for its property and casualty insurance with both reputable domestic players as well as well-known global competitors. In addition, in certain cities and regions, the Group faces competition from affiliates of international insurance groups, which may have access to greater financial resources and enjoy higher credit ratings than the Group.

Moreover, the presence of foreign-invested insurance companies in the PRC market has continued to increase in recent years, and their business activities have continued to expand as the industry becomes more open to foreign competition as a result of the PRC's commitments pursuant to its WTO accession agreement. In particular, some new foreign entrants may be able to commence operations rapidly by forming alliances and joint ventures with other PRC insurance companies, and now also banks, and by employing products and skills developed in their home markets. No geographic or quantitative limitations will apply once liberalisation has been completed. In these circumstances, more foreign insurers may eventually be able to offer insurance services in the PRC without facing significant barriers to entry, which may adversely affect the Group's business as well as the Group's future profitability. In Hong Kong, due to the market potential as well as the maturity of the insurance industry, the Group may not be able to develop the Group's insurance business at the speed the Group may achieve in the PRC.

With increasing competition, even if premium levels of the Group's businesses are not adversely affected, the underlying profit margins of the insurance products sold may be adversely impacted, which may in turn affect the Group's financial condition and profitability.

The Group's expansion into new areas of business and new distribution channels may subject the Group to additional risks and uncertainties.

From time to time, the Group may enter into new areas of business or explore new distribution channels. The Group has been developing some new marketing methods such as telephone marketing and online marketing. The Group may invest significant time and resources in such efforts. The introduction and development of new areas of business and/or new products or services may not be completed in accordance with the expected timetables, and the pricing and profitability targets may not prove accurate or feasible. Furthermore, expansion into any new areas of business and/or any new distribution channel could have a material adverse effect on the effectiveness of the Group's internal control system to the extent the Group fails to effectively adapt its internal controls to such new businesses or distribution channels.

In addition, to be more competitive in the PRC insurance market, the Group intends to promote cross-selling opportunities among its different business lines by leveraging its diverse product offerings and its new distribution channels. However, there is no assurance that cross-selling will attract more customer demand, which may have an adverse effect on the Group's prospects and results of operations.

The Group may need additional capital in the future, and there is no assurance that the Group would be able to obtain such capital in time or on acceptable terms, or at all.

In order for the Group to grow, remain competitive, enter new businesses, expand the Group's scale of operations or meet regulatory capital adequacy or solvency margin ratio requirements, the Group may need new capital in the future. The Group's ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- the Group's future financial condition, results of operations and cash flows;
- the Group's ability to obtain the necessary regulatory approvals on a timely basis;
- the Group's shareholders' ability to make continuous contributions;
- general market conditions for capital raising activities; and
- economic, political and other conditions in the PRC, Hong Kong and elsewhere.

The Group's business, results of operations and financial condition could be adversely affected if the Group is unable to successfully manage its growth.

The Group's future growth may place significant demands on the Group's managerial, operational and capital resources. The expansion of the Group's business activities exposes the Group to various challenges, including, but not limited to:

- continuing to expand and train actuarial staff and to enhance actuarial capabilities;
- continuing to develop adequate underwriting and claims settlement capabilities and skills;
- recruiting, training and retaining personnel with proper experience and knowledge, in particular professionals with the expertise and experience to invest in existing and new asset classes as the permissible asset classes for investments broaden and the scale of the Group's asset management business increases;
- continuing to expand, train and retain its life insurance agency force while maintaining costs and productivity at optimal levels;
- meeting higher requirements for cost controls, meeting the demand for a broader capital base and satisfying an on-going need to meet the minimum solvency margin requirements; and
- strengthening and expanding the Group's risk management and information technology systems to effectively manage the risks associated with existing and new lines of insurance products and services and increased marketing and sales activities.

There is no assurance that the Group will manage its growth successfully. In particular, the Group may not be able to rapidly recruit and effectively train and retain a sufficient number of qualified personnel to keep pace with the growth of the Group's business. In addition, the Group may not be able to exercise effective centralised management and supervision over the Group's subsidiaries and branch entities if the Group's internal control and information technology systems are not developed quickly enough to accommodate the Group's growing business needs.

In addition, to the extent the Group pursues its growth strategy through acquisitions, there is no assurance that the Group will be able to identify and secure suitable acquisition opportunities or that Group will be able to implement its strategies and policies in respect of acquired entities in a timely fashion. Furthermore, any particular acquisition may not produce the intended benefits. For example, the Group may not be successful in integrating any future acquisition with the Group's existing operations and personnel, and the process of integration may cause unforeseen operating difficulties and expenditures and may require significant attention from the Group's management that would otherwise be available for the on-going development of the Group's business. If the Group encounters difficulty in integrating an acquisition, the Group's business and results of operations may be adversely affected.

Current or future litigation and regulatory procedures could result in reputational harm and financial losses or adversely impact the Group's businesses.

The Group is involved in litigation involving the Group's insurance operations on an on-going basis. In addition, governmental agencies, such as the OCI and the CIRC, as well as other governmental agencies, including tax, commerce and industrial administration and audit bureaus, from time to time make inquiries and conduct examinations or investigations concerning the Group's compliance with laws and regulations. These litigation and administrative proceedings have in the past resulted in payments of insurance benefits, damage awards, settlements or administrative sanctions, including fines, which have not been material to the Group. The Group currently has control procedures in place to monitor the Group's litigation and regulatory exposure and take appropriate actions. While the Group cannot predict the outcome of any pending or future litigation, examination or investigation, the Group does not believe that any pending legal matter will have a material adverse effect on the Group's business, financial condition or results of operations. However, there is no assurance that any future litigation or regulatory proceeding will not have an adverse outcome, which could have a material adverse effect on the Group's reputation, operating results or cash flows.

The embedded values of CTIH and TPL are calculated based on a number of assumptions used in the calculations and may vary significantly as those assumptions are changed.

CTIH's embedded value, as at 31 December 2012 and 30 June 2013 was HK$37,656 million and HK$49,191 million, respectively. TPL's embedded value, as at 31 December 2010, 2011, 2012 and 30 June 2013, was HK$17,511 million, HK$21,574 million, HK29,286 million and HK$41,938 million, respectively and TPL's new business value after cost of capital was HK$1,827 million, HK$2,244 million, HK$2,304 million and HK$1,650 million for the years ended 31 December 2010, 2011 and 2012 and 30 June 2013. The calculation of these values necessarily makes numerous assumptions with respect to industry performance, general business and economic conditions, the performance of the Group's insurance operations, investment returns, reserving standards, taxation, life expectancy and other matters, many of which are beyond the control of CTIH and TPL. Specifically, these assumptions include risk discount rate, investment yield, mortality, morbidity, lapse and surrender, expense ratio, commissions, policyholder dividends and tax rates, among other things. As a result, actual future experience may differ from those assumed in the calculations, and these differences may be material.

Since the Group's financial condition and performance are evaluated by investors based on a variety of information available to them, these values should not be construed to be a direct reflection of the Group's financial condition and performance. For these reasons, prospective investors should only consider these values after carefully evaluating all of the risks described in this Offering Circular, including the risks described in this section. The inclusion of these values in this Offering Circular should not be regarded as a representation by the Group, PwC (who has examined the methodology and assumptions used by CTIH and TPL in preparing the embedded values), the Joint Lead Managers, the Co-Manager or any other person of the Group's future profitability.

The Group's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.

The Group's business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets, as well as on-going concerns about European sovereign debt levels and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending and debt levels and the consequences for economic growth and investor confidence in the United States, and the possible "tapering" of the US Federal Reserve's quantitative easing programme, all affect the business and economic environment and, ultimately, the amount and profitability of the Group's business. Uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis, can have an adverse effect on the Group, in part because the Group's insurance liabilities and investment portfolios are sensitive to changing market factors. The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels.

While the Group's diversified business mix partially mitigates the risks described above, correlation across regions, countries and global markets may reduce the benefits of diversification. The Group's life insurance and property and casualty investment portfolio in the PRC principally comprises fixed income securities issued by the PRC government, PRC state-related entities and state-owned banks and deposits with PRC state-owned banks. The performance of the Group's life insurance and property and casualty investment portfolio is therefore particularly sensitive to market and macroeconomic conditions in Mainland China, including the financial performance and repayment ability of certain PRC state-related entities, some of which may depend on government support.

Moreover, any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets, which are expected to remain fragile and often volatile. During severe market downturns, the Group's PRC subsidiaries, like other insurance companies in the PRC, may have to dispose of certain of their investment assets, possibly at unfavourable prices, so as to maintain their solvency margins. In addition, limitations on the availability of financial derivative products in the PRC and the Group's limited expertise and experience in using financial derivative products may limit the Group's ability to hedge its market risk or interest rate risk.

In addition, upheavals in the financial markets can also affect the Group's business through their effects on general levels of economic activity, employment and customer behaviour. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for the Group's financial and insurance products could be adversely affected. Demand for the Group's insurance products, in particular, would be adversely affected by lower levels of disposable income. In addition, the Group may experience an elevated incidence of claims and lapses or surrenders of policies. The Group's policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. The Group's reinsurance business could also be adversely affected by economic problems. For example, a substantial portion of TPRe's business is global, including in Asia and Europe, which business could be adversely affected by unfavourable global economic conditions.

The interest rate environment and bank reserve ratio requirements in particular are likely to have an impact on the level of premiums written through the bancassurance channel. Bank customers may be less inclined to purchase insurance products if a high interest rate environment results in competing investment products offering higher yields. Tighter liquidity conditions and high bank reserve requirements may also lead to a poorer climate for bank distribution sales of insurance products.

Global economic uncertainty and the slowdown in the PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions. The Group cannot predict whether or when such actions may occur, nor can the Group predict what ultimate impact, if any, such actions or any other governmental actions could have on the Group's business, results of operations and financial condition.

An actual or perceived reduction in the Group's financial strength could increase policy surrenders and withdrawals, damage the Group's business relationships and negatively impact new sales of the Group's products.

Policyholders' confidence in the financial strength of an insurance company, as well as in the financial services industry generally, is an important factor affecting the Group's business. Any actual or perceived reduction in the Group's financial strength, whether due to a reduction in the solvency margin of any of the Group's PRC subsidiaries or other factors, could materially and adversely affect the Group's business because any such development may, among other things:

- increase the number of policy surrenders and withdrawals;
- damage the Group's relationship with its creditors, customers and the distributors of the Group's products;
- negatively impact sales of the Group's products;
- require the Group to reduce prices for many of the Group's products and services to remain competitive;
- adversely impact the Group's ability to obtain reinsurance on acceptable terms; and
- increase the Group's borrowing costs as well as affect the Group's ability to obtain financing on a timely basis.

There is no assurance that the Group will not experience any reductions in its financial strength, actual or perceived, in the future.

The termination of, or any adverse change to, the Group's arrangements with the Group's bancassurance partners may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group primarily relies on arrangements with the PRC's large commercial banks, joint-stock commercial banks and regional commercial banks for the sales of the Group's bancassurance products through their respective networks of bank outlets.

The Group usually enters into cooperation agreements with these commercial banks, but there is no assurance that these agreements will be renewed on acceptable terms, or at all, upon their expiration. In addition, the Group's cooperation agreements with the headquarters of these commercial banks only allow the Group to enter into bancassurance business relationships with their respective local branches and outlets, and each such branch or outlet of a commercial bank has discretion over whether to sell the Group's bancassurance products. There is no assurance that the Group will be able to maintain or establish bancassurance business relationships with all the outlets of the aforementioned commercial banks.

The commercial banks that distribute the Group's bancassurance products are subject to banking supervision and regulation in the PRC, while the Group is subject to insurance supervision and regulation in the PRC. Regulatory changes with respect to the bancassurance business and distribution of bancassurance products may materially and adversely affect the Group's relationships and arrangements with these banks, restrict the Group's ability to further expand its bancassurance arrangements with commercial banks, or limit or constrain the ability of the banks and the Group to sell insurance products through bancassurance channel.

The termination of, disruption to, or any other adverse change to, the Group's relationships with the banks with which the Group has cooperation agreements, or the formation of any exclusive partnerships between these banks and any of the Group's competitors could significantly reduce the sales of the Group's products and the Group's growth opportunities. Banks' demand for higher commissions or changes to bancassurance pricing could increase the Group's costs in connection with the sale of the Group's products and adversely affect the profitability of the Group's products. Any of these developments could have a material adverse effect on the Group's business, results of operations and financial condition.

Furthermore, many PRC banks have begun, or are contemplating beginning, their own insurance operations in the country. As bancassurance has been an important distribution channel for TPL and other insurers in the industry, the entrance of banks into the insurance business directly poses challenges to the Group's long-term bank distribution strategy. Because bancassurance forms a large part of premiums written by TPL, any sharp decrease in the bancassurance channel could negatively impact the earnings and financial position of the Group.

TPG, the Company and CTIH may not be able to successfully implement and manage the ongoing Restructuring and obtain the benefits expected to derive from the Restructuring.

TPG is restructuring its ownership in CTIH. The Restructuring contemplates the sale by TPG and the Company of equity interests in (i) certain non-wholly-owned subsidiaries of CTIH including a 25.05% equity interest in TPL, a 38.79% equity interest in TPI, a 20% equity interest in TPAM and a 4% equity interest in TPP, (ii) overseas P&C insurance companies including 100% equity interests in each of TP Macau, TP Singapore and TP UK, and a 55% equity interest in TP Indonesia and (iii) certain property holding companies and other companies owned by TPG and the Company, in each case to CTIH. It is contemplated that the consideration will be satisfied by the issuance of new shares of CTIH. Upon completion of the Restructuring, TPG is expected to own a 68.96% equity interest in CTIH through the Company. The completion of the Restructuring depends on the fulfilment of certain conditions precedent which include, among other things, obtaining the approval and consent of governmental departments and regulatory authorities in the relevant jurisdictions and fulfilling specific filing obligations and registration requirements.

The Group believes that the Restructuring, if successfully implemented, will streamline the structure through which the MOF (being the ultimate controller of TPG) holds its stake in the TPG group, enhance the financial performance, stability and scale of the Group, establish a more streamlined management structure of key underlying business entities, enhance the operating efficiency of the Group, and ultimately improve CTIH's capacity for future long term fund-raising. The Group does not believe that the Restructuring will cause any material adverse impact on the financial condition of the Group as a whole. There can be no assurance, however, that all required conditions will be met, in a timely fashion or at all, that the Restructuring will proceed or be completed as contemplated, or, if it does proceed and complete, that it will result in the benefits to the Group that the Group expects or that it will not have any material adverse impact on the financial condition of the Group.

In addition, due to the ongoing Restructuring, the Group's historical financial information included in this Offering Circular may not necessarily be fully indicative of the Group's future financial condition, results of operations and cash flows. For illustrative purpose only, pro forma financial information of the enlarged group assuming the Restructuring is completed as at and for the year ended 31 December 2012 and the six months ended 30 June 2013 is included in this Offering Circular. Because of its hypothetical nature, the pro forma financial information does not provide any assurance or indication that any event will take place in the future and may not be indicative of the consolidated financial information of the enlarged group as at and for the year ended 31 December 2012 and six months ended 30 June 2013 or any future date.

The valuation attached to our investment properties contains assumptions that may or may not materialise.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Group's investment properties were stated at fair value of HK$4,813.2 million, HK$8,229.1 million, HK$9,293.7 million and HK$9,868.3 million, respectively. The Group reassesses the fair value of its investment properties at every reported statement of financial position date based on the market value for which the property could be exchanged between knowledgeable and willing parties in an arm's-length transaction. The valuations are based on certain assumptions which, by their nature, are subjective and uncertain and may differ materially from actual results. Accordingly, the valuations are not a prediction of the actual value the Group can realise from these investment properties. Unanticipated results or changes in particular property developments, or changes in general or local economic conditions or other relevant factors, including changes in government regulations, could affect such values. In addition, the Group's consolidated statement of comprehensive income includes changes in fair value of investment properties. A decrease in the value of the investment properties could reduce the Group's net income. An upward change in the fair value, which reflects unrealised capital gains at the relevant statement of financial position dates, does not generate cash inflow to the Group until such investment properties are disposed of.

The Group is subject to risks associated with its overseas property and casualty insurance business.

In addition to the PRC and Hong Kong, the Group conducts property and casualty insurance business in a few foreign countries and regions, including Macau, Singapore and the United Kingdom, as well as Indonesia upon the completion of the ongoing restructuring among TPG, the Company and CTIH. The Group's business is therefore subject to changing international economic and political conditions and local conditions in the jurisdictions in which the Group has operations.

The Group's overseas property and casualty insurance business exposes the Group to a number of risks including but not limited to cultural differences, instability or changes in the political, regulatory or economic environment, lack of understanding of the local business environment, financial and management system or legal system, differences in legal burdens in complying with local laws and regulations, competition within the local market and volatility in currency exchange rates. If the Group is unable to effectively manage the above-mentioned risks, such failure could impair its ability to operate or expand its overseas property and casualty insurance business and could adversely and materially affect its business, financial condition and results of operations.

The Group's strategic initiatives at its businesses may not be successful.

The Group operates a very diverse portfolio of businesses, including life insurance in the PRC, property and casualty insurance in the PRC, Hong Kong, Macau, Singapore and the United Kingdom, and reinsurance globally. The Group has strategic objectives, such as its current ambition to "Build A New Taiping in Three Years' Time", which includes doubling the Group's premium, net income and assets within three years' time in line with risk management standards. Each of the Group's business segments also has ongoing and future strategic and operating initiatives to further develop and grow its operations. There is no assurance that the Group will be able to successfully achieve any of its strategic and operating initiatives, whether at the operating business level, or at the overall group level. For example, TPL's recent initiatives in the bancassurance area, including the focus on single premium sales in the first half of 2013 to secure and deepen the relationships with bank branches, and to focus on regular premium sales through the bank branches for the remainder of 2013, may not be effective or successful. Even if premium levels are higher in the bancassurance channel, the profitability of the bancassurance channel may be adversely impacted due to rising costs and expenses, such as higher commissions, which may lower the profitability of the bancassurance products. Any failure to achieve any of the Group's strategic and operating initiatives could have an adverse impact on the Group's business, financial condition and results of operations.

As a holding company, the Company may not be able to generate sufficient cash flow from dividend payments by its subsidiaries or other funding sources to meet its financial obligations to creditors or other holders of its indebtedness or to fund its other liquidity requirements.

The Company's ability to meet its financial obligations to creditors or other holders of its indebtedness or to fund its liquidity requirements is dependent on its ability to generate cash in the future. There is no assurance that the Company will be able to generate sufficient cash flow from distributions of dividends from its subsidiaries or other funding sources to enable the Company to meet its financial obligations to creditors or other holders of its indebtedness or to fund its liquidity requirements.

As a holding company, the Company's cashflow and liquidity is dependent primarily on dividends received by it from its subsidiaries. The Company may face cashflow and liquidity difficulties in the event its subsidiaries incur debt or financial losses to an extent that it affects their ability to distribute to the Company dividends and other distributions. For example, on 2 October 2013, CTIH, through its wholly-owned subsidiary, China Taiping Fortunes Limited, issued US$300 million aggregate principal amount of US$-denominated, unsecured and unsubordinated notes due 2028. The notes are unconditionally and irrevocably guaranteed by CTIH. As a result, CTIH may be required to allocate substantial available cashflow to make interest and principal payments on such notes. Such cashflow would therefore not be available for dividend payments to the Company.

The ability of the Company's subsidiaries to distribute dividends and other distributions to the Company may also be impacted by laws and regulations in which such subsidiaries operate or are subject. For example, according to PRC regulations, the Company's PRC subsidiaries may only distribute their after-tax profits, as determined in accordance with PRC accounting principles (which differ in many aspects from the generally accepted accounting principles in other jurisdictions), to their shareholders according to their capital contribution only after they have made appropriate contributions to the relevant statutory reserves. Any insurance company that is subject to PRC regulations (including the Company's PRC subsidiaries that operate an insurance business), and that has a solvency margin ratio of not higher than 150% is required to use the lower of (i) distributable profits calculated pursuant to the PRC Accounting Standards on Business Enterprises and (ii) residual consolidated earnings calculated pursuant to the Rules on Preparation of Report on Solvency Margin of Insurance Companies issued by the CIRC as the basis for its profit distribution. In addition, the CIRC may restrict any such insurance company that has a solvency margin ratio lower than 100% from paying dividends. Further, the Company or its subsidiaries may enter into certain agreements such as bank credit facilities and joint venture agreements which may contain covenants restricting the Company's subsidiaries' ability to distribute dividends and other distributions to the Company and thereby substantially reducing the cashflows of the Company.

Given the restrictions referred to above, the Company may need to undertake certain non-operating activities such as intragroup investments, the sale of assets or other forms of capital raising in order meet its financial obligations to creditors and other holders of its indebtedness and to meet its liquidity requirements. However, there is no assurance that the Company will be able to effect or undertake such activities on satisfactory terms or at all, or that any asset could be sold or that, if sold, the timing of the sales and the amount of proceeds realised from those sales would be sufficient to allow the Company to meet its financial obligations to creditors and other holders of its indebtedness. For example, if the Company advances part of the net proceeds from the Offering to its subsidiary(ies) in the form of a loan, such subsidiary(ies) may have difficulty servicing the resulting intragroup indebtedness, including making interest and principal payments to the Company which the Company requires to meet its interest and principal payment obligations under the Notes.

The Company has other debt outstanding including the US$300 million aggregate principal amount of US$-denominated, unsecured and unsubordinated notes due 2028 issued through its subsidiary, China Taiping Wealth Limited, on 4 October 2013. If the Company is unable to satisfy its debt obligations, it may have to undertake alternative financing plans, such as refinancing or restructuring its indebtedness, or reducing or delaying its capital investment plans. There can be no assurance that any refinancing or debt restructuring would be possible or be on terms that would be favourable to the Company or to the holder of the Notes or that additional financing could be obtained on acceptable terms and in sufficient amounts to meet all of the Company's creditors and other holders of its indebtedness.

These factors may affect the Company's ability to service its indebtedness, which could materially and adversely affect the Group's business, financial condition and results of operations as well as the Company's ability to pay interest, premium, principal and other amounts due under the Notes.

Risk Factors Relating to the Insurance Industry

The Group's businesses are heavily regulated, and changes in regulation may reduce the Group's profitability and limit the Group's growth.

The Group is subject to extensive regulation and supervision in the jurisdictions where the Group conducts business, in particular the PRC where much of the Group's business is focused and where the Group's operations are supervised by the CIRC and must comply with the PRC Insurance Law. The Group is also subject to regulatory oversight in Hong Kong by the OCI under the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong) ("**ICO**"). The Group's overseas subsidiaries engaging in the property and casualty insurance business, including TP Macau, TP Singapore, TP UK and TP Indonesia, are required to comply with local laws and regulations as set out by their respective local government authorities. The regulations to which the Group is subject are generally designed to protect the interests of policyholders, as opposed to insurers and other investors, and relate to the authorisation to transact certain lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control and a variety of other financial and non-financial components of an insurance company's business.

The Group's businesses in life insurance and property and casualty insurance in the PRC are extensively regulated by the CIRC, which has been given wide discretion in its administration of these laws, rules and regulations as well as the authority to impose regulatory sanctions on the Group. Under the amendments to the PRC Insurance Law promulgated in 2009, the CIRC has been granted greater regulatory oversight over the PRC insurance industry, in part to afford policyholders more protection.

The terms and premium rates of the Group's insurance products are subject to regulations. Changes in these regulations may affect the Group's profitability on the products the Group sells. For example, the CIRC has limited the maximum guaranteed rate that insurance companies may commit to pay on life insurance policies to 2.5%. If the CIRC were to change this rate in the future, this could have a material adverse effect on the Group's profitability.

Failure to comply with any of the laws, rules and regulations to which the Group is subject could result in fines, restrictions on business expansion or, in extreme cases, revocation of business licenses, which could materially and adversely affect the Group. As some of the laws, rules and regulations that the Group is subject to are relatively new, there is uncertainty regarding their interpretation and application.

In addition, the laws, rules and regulations under which the Group is regulated may change from time to time. For example, the Group's PRC operations are affected by the PRC tax laws and regulations. The PRC tax authorities may undertake reforms of the tax system, which may result in changes to the tax laws and regulations that the Group is currently subject to. There is no assurance that this reform will not have a material adverse effect on the Group's business, results of operations or financial condition. The Group also cannot assure you that future legislative or regulatory changes, including deregulation, would not have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's ability to comply with minimum solvency requirements is affected by a number of factors, and the Group's compliance may force the Group to raise additional capital, which could increase the Group's financing costs or be dilutive to the Group's existing investors, or reduce the Group's growth rate.

Insurance companies are generally required by applicable law to maintain their solvency at a level in excess of statutory minimum standards. The solvency of the Group's PRC subsidiaries is affected primarily by the solvency margins each subsidiary is required to maintain, which are in turn affected by the volume and type of new insurance policies the Group sells, the composition of the Group's in-force insurance policies and by regulations on the determination of statutory reserves.

The Group's subsidiaries conducting insurance business in Hong Kong and PRC are required to maintain solvency to cover their estimated ultimate liabilities and related settlement expenses with respect to reported and unreported claims, under the ICO and by CIRC, respectively. In addition, the Group's overseas subsidiaries engaging in the property and casualty insurance business, including TP Macau, TP Singapore, TP UK and TP Indonesia, are required to maintain solvency requirements as set out by their respective local government authorities. The solvency ratios of the Group's subsidiaries are also affected by a number of other factors, including the profit margin of the Group's products, returns on the Group's investments, underwriting and acquisition costs and policyholder and shareholder dividends.

If the solvency margin of any of the Group's PRC subsidiaries does not satisfy the relevant requirements, the relevant authorities may impose a range of regulatory sanctions depending on the degree of deficiency in such subsidiary's solvency margin. In addition, the solvency ratios of the Group's PRC subsidiaries may impact the Group's operating investment activities in the PRC. For example, under PRC regulations, insurance companies are required to have sufficient capital commensurate with their risk exposures and scale of business to ensure a solvency margin ratio of no less than 100%.

Should the solvency margins of the Group's PRC subsidiaries engaging in the insurance business (e.g. TPL and TPI) fall below 100%, or otherwise prove to be insufficient to cover actual losses, loss adjustment expenses or future policy benefits after taking into account available reinsurance or retrocessional coverage, such subsidiaries may have to make provision for additional reserves and incur charges to earnings, which could have a material adverse effect on the Group's financial condition and results of operations, and could adversely affect the growth rate of the Group's business.

Concentrated surrenders may materially and adversely affect the Group's cash flows, results of operations and financial condition.

Under normal circumstances, it is possible, to a certain extent, for insurance companies to estimate the overall amount of surrenders in a given period. However, the occurrence of emergency or macroeconomic events that have significant impact, such as sharp declines in customer income due to a severe deterioration in economic conditions, radical changes in relevant government policies, loss of customer confidence in the insurance industry due to the weakening of the financial strength of one or more insurance companies, or the severe weakening of the Group's financial strength, may trigger massive surrenders of insurance policies. If this were to occur, the Group would have to dispose of the Group's investment assets, possibly at unfavourable prices, in order to make the significant amount of surrender payments. This could materially and adversely affect the Group's cash flows, results of operations and financial condition.

Customer preferences for insurance, investments and pension products as well as wealth management solutions may change and the Group may not respond appropriately or in time to sustain the Group's business or its market share in the geographical markets in which the Group operates.

The insurance, investment, pension and wealth management markets as well as the Group's customer's preferences are constantly evolving. As a result, the Group must continually respond to changes in these markets and customer preferences to remain competitive, grow the Group's business and maintain market share in the geographical markets in which the Group operates. The Group faces many risks when introducing new products. The Group's new products may fail to achieve market acceptance due to competition or other factors beyond the Group's control, which could harm the Group's business.

The Group's new products may also be rendered obsolete or uneconomical by competition or developments in the insurance, investment, pension and wealth management and other financial services industries. Furthermore, even if the Group's current and anticipated product offerings are responsive to changing market demand, the Group may be unable to commercialise them. Moreover, potential products may fail to receive necessary regulatory approvals, be difficult to market on a large scale, be uneconomical to introduce, fail to achieve market acceptance, or be precluded from commercialisation by proprietary rights of third parties. Any inability to commercialise the Group's products would materially impair the viability of the Group's business. Accordingly, the Group's future success will depend on the Group's ability to adapt to changing customer preferences, industry standards and new product offerings and services. Any of these changes may require the Group to re-evaluate the Group's business model and adopt significant changes to the Group's strategies and business plan. Any inability to adapt to these changes would have a material adverse effect on the Group's business, financial condition and results of operations.

The rate of growth of the PRC insurance market may not be as high or as sustainable as the Group anticipates.

The Group expects the insurance market in the PRC to expand and the insurance penetration rate to rise with the continued growth of the PRC economy and household wealth, the reform of the social welfare system, demographic changes and the opening up of the PRC insurance market to foreign participants. The Group's judgments regarding the anticipated drivers of such growth and their impact on the PRC insurance industry are prospective. There is no assurance that such prospective judgments will be consistent with actual developments. Moreover, the PRC insurance industry may not be free from systemic risks, including risks related to macroeconomic conditions and financial system stability. Consequently, the growth and development of the PRC insurance industry may not be sustainable or in line with the Group's expectations.

Risk Factors Relating to the PRC and Hong Kong

An economic slowdown in the PRC and Hong Kong may reduce the demand for the Group's products and services and have a material adverse effect on the Group's business, results of operations, financial condition and future prospects.

The Group actively conducts its business and generates substantially all of its revenues in the PRC and Hong Kong. As a result, economic developments in the PRC and Hong Kong have a significant effect on the Group's business, results of operations and financial condition, as well as the Group's future prospects.

In recent years, the global economy as a whole has experienced a slowdown due to factors such as the global financial crisis that unfolded in 2008 and continued during 2009 and resulting pressure on global financial markets. The economic growth of major emerging economies such as the PRC has slowed down. For example, the GDP growth rate of the PRC in first half of 2013 dropped to 7.6%, down from 7.8% in 2012, 9.3% in 2011 and 10.4% in 2010. The adverse impact of uncertain global economic conditions on the PRC economy may continue or be exacerbated in the future. The future economic growth rate of the PRC may be significantly lower than that of past years. As the economic growth of the PRC slows down, the Group may also experience a decrease in the rate of growth of the Group's revenues.

Factors such as consumer, corporate and government spending, business investment, volatility and strength of the capital markets and inflation all affect the business and economic environment and ultimately, the profitability of the Group's business. In addition, any future calamities, such as natural disasters, outbreak of contagious diseases or social unrest, may cause a decrease in the level of economic activities and adversely affect the economic growth in the PRC, Asia and elsewhere in the world. In an economic downturn characterised by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for the Group's insurance products and services could be adversely affected. In addition, the Group may experience an elevated incidence of claims and lapses or surrenders of policies. The Group's policyholders may also choose to defer paying insurance premiums or stop paying insurance premiums altogether.

The Hong Kong economy has also been adversely affected by the uncertain global economic conditions. Hong Kong stock market prices experienced significant volatility due to the economic slowdown in the United States and many other economies around the world, substantial volatility in equity securities markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global credit markets. The Group expects that the continued growth in the Hong Kong economy depends in part upon the economic performance of the United States and the PRC, as well as certain other developed countries. Although there has been mounting evidence since the second half of 2009 that the global economy is recovering, there are renewed doubts regarding the sustainability of the recovery.

The Group is unable to predict the timing, impact or duration of any economic slowdown or subsequent economic recovery in the PRC or any other regions in which it operates. If the economy of PRC and/or Hong Kong experiences or continues to experience a slower growth or a significant downturn, the Group's business, results of operations and financial condition would be materially and adversely affected.

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business.

A substantial part of the Group's assets are located in the PRC and a large portion of the Group's revenues are derived from its operations in the PRC. Accordingly, the Group's results of operations and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including:

- the extent of government involvement;
- its level of development;
- its growth rate; and
- its control of foreign exchange.

The economy of the PRC has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

In an effort to fight inflation, the PRC government has taken various measures, including increasing interest rates and the deposit reserve ratio. Some of these measures benefit the overall economy of the PRC but may have a negative effect on the Group's business. For example, the Group's operating results and financial condition could be materially and adversely affected by government monetary policies, changes in interest rate policies, tax regulations, and policies and regulations affecting the capital markets and asset management industry. Any changes in government policy, reform measures and regulations could have an adverse impact on the Group's business, financial condition and profitability.

The PRC legal system has inherent uncertainties that could limit the legal protections available.

All of the Group's PRC entities are organised under the laws of the PRC and are governed by their articles of association. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited precedential value. Since 1979, various PRC legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws and regulations involve uncertainties.

Any future outbreaks of contagious diseases in the PRC, Hong Kong or other places where the Group operates may have a material adverse effect on the Group's operations, financial condition and results of operations.

During the first half of 2003, the outbreak of SARS caused an adverse effect on the economies of the affected regions in Asia, including the PRC and Hong Kong, which affected the Group's operations in these affected regions. In the last few years, there have also been outbreaks of avian influenza in parts of Asia, including the PRC and Hong Kong. In 2009, there were outbreaks among humans of the swine influenza H1N1 virus globally. On 11 June 2009, the World Health Organisation raised its pandemic alert level to Phase 6, its highest level, after considering data confirming the H1N1 outbreak. To date, there has been a significant number of confirmed cases of H1N1 in the Asia Pacific region and a number of deaths worldwide. In 2013, an avian influenza (H7N9) was first reported to have infected humans in the PRC, causing severe respiratory illness and death. The World Health Organisation has described H7N9 as an unusually dangerous virus for humans.

No assurance can be given that there will not be a recurrence of the outbreak of SARS or other epidemics, or that incidents of swine influenza or avian influenza such as H7N9 will not increase. Such developments could adversely impact the economies in the places where the Group operates including the PRC and Hong Kong and adversely affect the demand for the Group's products in those markets. There can be no assurance that the Group's business, financial condition and results of operations would not be adversely affected if another outbreak of SARS, H1N1 or H7N9 viruses or another highly contagious disease occurs.

Risk Factors Relating to the Notes

Since the Guarantor is a holding company that conducts operations through subsidiaries, the right of Noteholders to receive payments on the Guarantee is structurally subordinated to the other liabilities of the subsidiaries of the Guarantor.

The Guarantor is organised as a holding company for the Group's operations. As a result, substantially all of the Guarantor's operations are carried on through subsidiaries. The Guarantor's principal source of income is from dividends and other distributions received by the Guarantor from its subsidiaries.

The Guarantor's ability to meet its financial obligations is dependent upon the availability of cash flows from its subsidiaries and affiliated companies through dividends, intercompany advances, management fees and other payments. The Guarantor's subsidiaries and affiliated companies are not required and may not be able to pay dividends to the Guarantor. Claims of the creditors of the Guarantor's subsidiaries have priority as to the assets of such subsidiaries over the claims of creditors of the Issuer or the Guarantor.

Consequently, holders are structurally subordinated, on the Guarantor's insolvency, to the prior claims of the creditors of the Guarantor's subsidiaries.

The Guarantee to be provided by the Guarantor is subject to certain limitations that may affect the validity or enforceability of the Guarantee.

Enforcement of the Guarantee will be subject to certain generally available defences. Local laws and defences may vary, and may include those that relate to corporate benefit (*ultra vires*), fraudulent conveyance or transfer (*actio pauliana*), voidable preference, corporate purpose and capital maintenance or similar laws and concepts. They may also include regulations or defences which affect the rights of creditors generally.

If a court were to find a guarantee given by the Guarantor, or a portion thereof, void or unenforceable as a result of such local laws or defences, the Noteholders' claim in respect of the Guarantor will be limited and, if payment had already been made under the Guarantee, the court could require that the recipient return the payment to the relevant Guarantor.

The Issuer does not have any material assets or operations.

The Issuer is a direct wholly-owned subsidiary of the Guarantor and does not have any material assets or operations. In the event that the Guarantor and its subsidiaries (other than the Issuer) do not make payments to the Issuer due to lack of available cash flow or other factors, the Issuer's ability to make payments under the Notes will be adversely affected.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's home currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Issuer is not prohibited from issuing further debt which may rank pari passu with the Notes.

There is no restriction on the amount of debt securities that the Issuer may issue that rank *pari passu* with the Notes. The issue of any such debt securities may reduce the amount recoverable by investors in the Notes upon the Issuer's bankruptcy, winding-up or liquidation. As at the date of this Offering Circular, the Issuer had no outstanding borrowings (debts) that rank pari passu with the Notes.

The Notes contain provisions regarding modification, which may affect the rights of Noteholders.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in Noteholders receiving less interest than expected and could significantly adversely effect their return on the Notes.

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

In April 2013, the Luxembourg government announced its intention to abolish the withholding system with effect from 1 January 2015 in favour of information exchange under the Directive.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent (as defined in the *Terms and Conditions of the Notes* in this Offering Circular) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain an Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the aforesaid Directive.

U.S. Foreign Account Tax Compliance.

The U.S. "Foreign Account Tax Compliance Act" (or FATCA) imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA Withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA Withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA Withholding. The Issuer's obligations under the Notes are discharged once they have paid the clearing systems, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*" in this Offering Circular.

Change of law.

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Reliance on Euroclear and Clearstream, Luxembourg procedures.

The Notes are represented on issue by a Global Certificate that is to be deposited with a common depositary for Euroclear and Clearstream, Luxembourg.

Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Certificate held through it. While the Notes are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Certificate, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

An active secondary market for the Notes may not develop.

The Notes may have no established trading market when issued, and one may never develop. The Joint Lead Managers have informed the Issuer that they currently intend to make a market in the Notes, although they are not obligated to do so and any such market making activities may be discontinued at any time, without notice. Accordingly, even though the Notes may be listed on an exchange, the Issuer cannot make any assurances that an active market will develop for the Notes or as to the liquidity of, or the trading market for, the Notes. If an active market does develop, future trading prices of the Notes will depend on many factors, including, among others, prevailing interest rates, the Group's operating results and the market for securities similar to the Notes.

The Notes are subject to risk resulting from fluctuations in currency conversion and exchange rates.

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in United States dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than United States dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the United States dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to United States dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Fluctuations in interest rates may adversely affect the value of the Notes.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect their value.

Credit ratings may not reflect all risks.

The Notes are expected to be rated "BBB+" by Standard & Poor's. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The Issuer may not be able to repurchase the Notes upon a Change of Control event.

The Issuer must offer to purchase the Notes, upon the occurrence of a Change of Control, at a purchase price equal to 101 per cent. of the principal amount plus accrued and unpaid interest. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Change of Control*" in this Offer Circular.

The source of funds for any such purchase would be available cash or third-party financing, but there can be no guarantee that the Issuer will have sufficient available funds at the time of the occurrence of any Change of Control to make purchases of outstanding Notes. A failure by the Issuer to make the offer to purchase or purchase the outstanding Notes upon a Change of Control would constitute an Event of Default under the Notes.

The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods.

The Notes may be redeemed at the Issuer's option on the occurrence of certain events.

The Issuer has the right to redeem the Notes, in whole but not in part, at their principal amount together with any unpaid accrued interest thereon to the date fixed for redemption if it (or, if the Guarantees were called, the Guarantor) has or will become obligated to pay additional amounts, as a result of any change or amendment to the laws of a Relevant Jurisdiction. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons*" in this Offering Circular.

The date that the Issuer elects to redeem the Notes may not accord with the preference of individual holders, which may be disadvantageous to holders in light of market conditions or the individual circumstances of the holder of the Notes. Additionally, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective yield at the same level as that of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

1. DEFINITIONS

The following definitions are used in these Terms and Conditions:

"**Issuer**" .... China Taiping New Horizon Limited, a BVI business company incorporated with limited liability in the British Virgin Islands with company number 1790973 and with offices at 171 Main Street, Road Town, Tortola VG1110, the British Virgin Islands.

"**Guarantor**" .... China Taiping Insurance Group (HK) Company Limited, a company incorporated in Hong Kong.

"**Fiscal Agent**" .... Citicorp International Limited

Address:	55th Floor, One Island East 18 Westlands Road Island East Hong Kong
Fax:	+852 2323 0279
Attention:	Agency and Trust

"**Guarantee**" .... Deed poll guarantee entered into by the Guarantor on the Closing Date pursuant to which the Guarantor guarantees in favour of the Noteholders the due and punctual payment of all amounts payable by the Issuer under the Notes.

"**Registrar**" .... Citigroup Global Markets Deutschland AG

Address:	Reuterweg 16 60323 Frankfurt Germany
Fax:	+49 69 1366 1429
Attention:	Germany Agency and Trust Department

"**Paying Agent**"............................ Citibank N.A., London Branch

Address:	c/o Citibank, N.A., Dublin Branch Ground Floor 1 North Wall Quay Dublin 1 Ireland
Fax:	+353 1662 2210
Attention:	Agency and Trust-PPA Payments

"**Notes**"....................................... US$400,000,000 6.00 per cent. Guaranteed Notes due 2023 which also includes any further notes issued under Condition 17 (*Further Issues*) and forming a single series with the Notes (unless the context otherwise requires).

"**Closing Date**"............................. 18 October 2013.

"**Maturity Date**" .... 18 October 2023.

"**Noteholder**" .... Each holder of a Note.

*The owners shown in the records of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant applicable to them.*

2. RELATED AGREEMENTS

2.1 The Notes are issued subject to and with the benefit of a Fiscal Agency Agreement dated the Closing Date (as amended or supplemented from time to time) between the Issuer, the Guarantor, the Fiscal Agent, the Registrar and the other initial paying agents named in the Fiscal Agency Agreement (together with the Fiscal Agent and the Registrar, the "**Agents**").

2.2 These Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement, the Guarantee and the Deed of Covenant (as defined below) are available for inspection during normal business hours by the Noteholders at the specified office of each of the Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant applicable to them. References in these Terms and Conditions to the Fiscal Agent and the other Agents shall include any successor appointed under the Fiscal Agency Agreement.

3. FORM AND DENOMINATION

The Notes are issued in registered form in the denomination of US$200,000 each and in integral multiples of US$1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which the Issuer will procure to be kept by the Registrar.

Upon issue, the Notes will be represented by a Global Certificate registered in the name of a nominee for a common depositary of Euroclear Bank S.A./N.V and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate.

4. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

4.1 Title

Title to the Notes passes only by registration of title in the register of Noteholders. The holder of Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (other any transferee endorsed on the form of transfer on the back of the Certificate), or the theft or loss of the Certificate issued in respect of it) and no person will be liable for so treating the holder.

4.2 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed by the Noteholder or his attorney duly authorised in writing, at the specified office of the Registrar or any of the Agents. No transfer of title to a Note will be valid unless and until entered into the register of Noteholders.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

4.3 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed and signed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail (and by airmail if overseas) at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described herein (see the section of the Offering Circular entitled "The Global Certificate"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee holders with the certification procedures described above.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail (or by airmail if overseas) at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

4.4 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity or security as the Issuer or any Agent may reasonably require in respect of any tax or other governmental charges which may be levied or imposed in relation to such transfer; and the Issuer or Registrar or (as the case maybe) such Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and the Issuer or the relevant Agent being satisfied that the regulations concerning the transfer of Notes have been complied with.

4.5 Closed Periods

4.5.1 No Noteholder may require the transfer of a Note to be registered during the period of 15 business days ending on and including the due date for any payment of principal, premium or interest on that Note.

4.5.2 The Issuer shall not be required in the event of a partial redemption of Notes under Condition 10 (*Redemption and Purchase*):

(A) to register the transfer of Notes (or parts of Notes) during the period beginning on the 65th day before the date of the partial redemption and ending on the day on which notice is given specifying the serial numbers of Notes called (in whole or in part) for redemption (both inclusive); or

(B) to register the transfer of any Note, or part of a Note, called for redemption.

4.6 Regulations

All transfers of Notes and entries on the register of Noteholders shall be made subject to the detailed regulations concerning the register and transfer of Notes scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who in writing requests one.

5. STATUS OF THE NOTES

The Notes constitute (subject to Condition 7 (*Negative Pledges*) unsecured and unsubordinated obligations of the Issuer and rank and will rank at all times *pari passu* without any preference among themselves and (save for certain obligations to be preferred by law) equally with all other present and future outstanding unsecured and unsubordinated obligations of the Issuer but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

6. GUARANTEE

6.1 Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all amounts due in respect of the Notes under a guarantee (the "**Guarantee**") dated Closing Date and executed by the Guarantor.

6.2 Status of the Guarantee

The payment obligations of the Guarantor under the Guarantee constitute (subject to Condition 7 (*Negative Pledges*) unsecured and unsubordinated obligations of the Guarantor, which rank and will rank at all times *pari passu* with all other outstanding present and future unsecured and unsubordinated obligations of the Guarantor (save for certain obligations to be preferred by law) but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

7. NEGATIVE PLEDGE

7.1 Restriction

So long as any of the Notes remains outstanding:

7.1.1 the Issuer will not create or permit to subsist any mortgage, charge, lien, pledge or other security interest ("**Security**") other than Permitted Security upon the whole or any part of its undertaking, assets or revenues present or future of the Issuer to secure any Relevant Debt (as defined below), unless the Issuer, in the case of the creation of the Security, at the same time or prior thereto takes any and all action necessary to ensure that:

(A) all amounts payable by it under the Notes are secured by the Security equally and rateably with the Relevant Debt; or

(B) such other Security or other arrangement (whether or not it includes the giving of Security) is provided as is approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders; and

7.1.2 the Guarantor will not, and the Guarantor will procure that none of its Subsidiaries will create or permit to subsist Security, other than Permitted Security, upon the whole or any part of the undertaking, assets or revenues present or future of the Guarantor and/or any of its Subsidiaries to secure any Relevant Debt, unless the Guarantor, in the case of the creation of Security, at the same time or prior thereto takes any and all action necessary to ensure that:

(A) all amounts payable by it under the Guarantee are secured by the Security equally and rateably with the Relevant Debt; or

(B) such other Security or other arrangement (whether or not it includes the giving of Security) is provided as is approved by an Extraordinary Resolution of the Noteholders.

7.2 Interpretation

In these Conditions:

7.2.1 "**CNY**" means the lawful currency of the PRC.

7.2.2 "**Permitted Security**" means (i) any Security over any assets (or related documents of title) purchased by the Issuer, the Guarantor or any of their Subsidiaries as Security for all or part of the purchase price of such assets and any substitute Security created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets; and (ii) any Security over any assets (or related documents of title) purchased by the Issuer, the Guarantor or any of their Subsidiaries subject to such Security and any substitute Security created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets, provided that in the case of refinancing, the principal or nominal amount of such refinancing is not greater than the amount of the original financing.

7.2.3 "**PRC**" means the People's Republic of China.

7.2.4 "**Relevant Debt**" means:

(A) any present or future indebtedness (whether being premium, principal, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market outside of the PRC and having a maturity of more than one year, and

(B) any guarantee or indemnity of any such indebtedness,

which by their terms are payable, or confer a right to receive payment, in or by reference to any currency other than CNY.

and

7.2.5 "**Subsidiary**" means, in relation to the Issuer or the Guarantor, any company (i) in which the Issuer or as the case may be, the Guarantor holds a majority of the voting rights or (ii) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer or as the case may be, the Guarantor is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer or as the case may be, the Guarantor.

8. INTEREST

8.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including the Closing Date at the rate of 6.00 per cent. per annum, payable semi-annually in arrear on 18 April and 18 October in each year (each an "**Interest Payment Date**"). The first interest payment will be made on 18 April 2014.

8.2 Interest Accrual

Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

8.2.1 the date on which all amounts due in respect of such Note have been paid; and

8.2.2 five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15 (*Notices*).

8.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

9. PAYMENTS

9.1 Method of Payments

9.1.1 Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by US dollar cheque drawn on a bank that processes payments in US dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payments of principal and premium (if any) and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the "**record date**") being the fifteenth day before the relevant Interest Payment Date.

9.1.2 For the purposes of this Condition, a Noteholder's registered account means the US dollar account maintained by or on behalf of it with a bank that processes payments in US dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal and premium (if any) and interest due otherwise than on an Interest Payment Date, on the second business day (as defined below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's registered address means its address appearing on the register of Noteholders at that time.

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

9.2 Partial Payments

If the amount of principal, premium (if any) or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal, premium (if any) or interest in fact paid.

9.3 US Paying Agent

Payments in respect of Notes may only be made at the specified offices of Agent outside the United States of America, except that they may be made at the specified office of an Agent in New York City if (i) the Issuer has appointed Agents with specified offices outside the United States of America with the reasonable expectation that such Agent would be able to make payment at such offices of the full amount payable on the Notes in US dollars when due, (ii) payment of the full amount due in US dollars at all specified offices of the Agent outside the United States of America is illegal or effectively precluded by exchange controls or other similar restrictions, and (iii) the relevant payment is permitted by applicable US law. If a Note is presented for payment of principal at the specified office of any Agent in the United States of America in circumstances where interest (if any is payable against presentation of the Note) is not to be paid there, the relevant Agent will annotate the Note with the record of the principal paid and return it to the holder for the obtaining of payment elsewhere.

9.4 Payments Subject to Applicable Laws

Payments in respect of principal and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of any such payments.

9.5 Payment on Business Days

9.5.1 Where payment is to be made by transfer to a registered account, payment instructions will be initiated (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day). Where payment is to be made by cheque, the cheque will be mailed by registered airmail (at the risk of the Noteholder), on the Business Day preceding the due date for payment. In the case of a payment of principal and premium (if any) or a payment of interest due otherwise than on an Interest Payment Date, payment will be made on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

9.5.2 Noteholders will not be entitled to interest or other payment for (i) any delay after the due date in receiving the amount due if the due date is not a Business Day, (ii) if the Noteholder is late in surrendering its Certificate (if required to do so) or (iii) if a cheque mailed in accordance with this Condition arrives after the due date for payment.

9.5.3 In this Condition "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, New York and, in the case of presentation of a Note Certificate, in the place in which the Note Certificate is presented.

9.6 Agents

The initial Agents and their initial specified offices are set out at the front of these Conditions. The Issuer and the Guarantor reserve the right to vary or terminate the appointment of any Agent at any time and to appoint additional or other Agents provided that:

9.6.1 there is always a Fiscal Agent and a Registrar;

9.6.2 the Issuer undertakes that it will maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

9.6.3 such other agents as may be required by any stock exchange on which the Notes may be listed.

Notice of any termination or appointment and of any changes in specified offices given to the Noteholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

10. REDEMPTION AND PURCHASE

10.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 18 October 2023.

10.2 Redemption for Taxation Reasons

10.2.1 The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on any Interest Payment Date, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), at any time, at their principal amount, if (i) it (or, if the Guarantees were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11.2.2), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts where a payment in respect of the Notes (or the Guarantees, as the case may be) then due.

10.2.2 Prior to the publication of any notice of redemption pursuant to Condition 10.2.1, the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in Condition 10.2.1(ii) above cannot by avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment.

10.3 Redemption for Change of Control

10.3.1 If a Change of Control (as defined below) occurs with respect to the Guarantor, each Noteholder shall have the right (the "**Change of Control Redemption Right**"), at such Noteholder's option, to require the Issuer to redeem all of such Noteholder's Note(s) in whole but not in part, on the Change of Control Redemption Date, at a price equal to the Change of Control Redemption Amount (as defined below). The Agents shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred and nor be liable to any person for any failure to do so.

10.3.2 To exercise the Change of Control Redemption Right attaching to a Note on the occurrence of a Change of Control, the holder thereof must complete, sign and deposit at its own expense at any time from 9 am to 5 pm (local time in the place of deposit) on any Business Day at the specified office of any Agent a notice (a "**Change of Control Redemption Notice**") in the form (for the time being current) obtainable from the specified office of any Agent together with the relevant Certificate evidencing the Notes (if any) to be redeemed. Such Change of Control Redemption Notice may be given on the earlier of the date on which the relevant Noteholder becomes aware of the occurrence of the Change of Control and the date on which the Change of Control Notice delivered by the Issuer under Condition 10.3.4 is received by such Noteholder.

10.3.3 A Change of Control Redemption Notice, once delivered, shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Control Redemption Notice and instead to give notice that the Note is immediately due and repayable under Condition 12.1 (*Events of Default*). The Issuer shall redeem the Notes (in whole but not in part) which form the subject of the Change of Control Redemption Notice on the Change of Control Redemption Date.

10.3.4 Not later than seven days after becoming aware of a Change of Control, the Issuer shall procure that notice (a "**Change of Control Notice**") regarding the Change of Control be delivered to the Agents and the Noteholders (in accordance with Condition 15 (*Notices*) stating:

(A) that Noteholders may require the Issuer to redeem their Note under Condition;

(B) the date of such Change of Control and, briefly, the events causing such Change of Control;

(C) the names and addresses of all relevant Agents;

(D) such other information relating to the Change of Control as any Noteholder may require; and

(E) that the Change of Control Redemption Notice pursuant to Condition 10.3.2 once validly given, may not be withdrawn.

10.3.5 In this Condition:

(A) "**Control**" means the power to direct the management and the policies of the Guarantor whether through ownership of share capital, possession of voting right, by contract or otherwise.

(B) a "**Change of Control**" means that the government of the People's Republic of China no longer directly or indirectly Controls the Guarantor.

(C) "**Change of Control Redemption Amount**" means an amount equal to 101 per cent. of the principal amount of the Notes redeemed plus accrued and unpaid interest, if any, to and including the redemption date.

(D) "**Change of Control Redemption Date**" means the date specified in the Change of Control Redemption Notice, such date may not be less than 14 nor more than 30 day after the date of the Change of Control Redemption Notice.

(E) for the purposes of the Change of Control Repurchase Right, a "**person**" includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state, in each case, whether or not being a separate legal entity. A "**person**" does not include the board or any other governing board and does not include the Guarantor's Subsidiaries or affiliates.

10.4 Provisions relating to Partial Redemption

If less than all of the Notes are to be redeemed at any time, selection of such Notes for redemption will be made by the Paying Agent in compliance with the rules, if any, of any stock exchange on which the Notes are listed or, if such Notes are not then listed or there are no such applicable rules, on a pro rata basis, provided that no Notes shall be redeemed in part not more than 30 days before the date fixed for redemption. Notice of any such selection will be given not less than 15 days before the date fixed for redemption. Each notice will specify the date fixed for redemption and the aggregate principal amount of the Notes to be redeemed and the aggregate principal amount of the Notes which will be outstanding after the partial redemption. Where some but not all of the Notes in respect of which a Certificate is issued are to be redeemed, the notice of redemption that relates to such Certificate shall state the portion of the principal amount of the Notes to be redeemed, and where applicable, a new Certificate in a principal amount equal to the unredeemed Notes will be issued in the name of the Noteholder thereof upon cancellation of the original Certificate. Any such new Certificate will be delivered to the specified office of the Paying Agent or (at the risk and, if mailed at the request of the Noteholders otherwise than by ordinary uninsured mail, at the expense of the Noteholder) sent by mail to the Noteholder.

10.5 Purchases

The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries (as defined above) may at any time purchase Notes in any manner and at any price. If purchases of Notes are made by tender, tenders must be available to all Noteholders alike except where it is not possible to do so in order to qualify for exemptions from offering restrictions imposed by any relevant jurisdiction.

10.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or the Guarantor will forthwith be cancelled, and accordingly may not be reissued or resold. For the avoidance of doubt, all or any Notes which are purchased by or on behalf of the Guarantor's other Subsidiaries may be resold in any manner and at any price in compliance with relevant laws and regulations (including any applicable rules of relevant stock exchange).

10.7 Notices Final

Upon the expiry of any notice referred to above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such Condition.

11. TAXATION

11.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the amounts which would have been received by them had no such withholding or deduction been required; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

11.1.1 presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note (or, any the case may be, payments made by the Guarantor) by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Note; or

11.1.2 presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day (as defined in Condition 9 (*Payments*)); or

11.1.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

11.1.4 presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Agent or the Fiscal Agent.

11.2 Interpretation

In these Conditions:

11.2.1 "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*); and

11.2.2 "**Relevant Jurisdiction**" means the British Virgin Islands or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or Hong Kong or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor) or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Notes.

11.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

12. EVENTS OF DEFAULT

12.1 Events of Default

The Noteholder(s) holding not less than 5 per cent. of the aggregate outstanding principal amount of the Notes may, by giving written notice to the Issuer and the Guarantor, declare that the Notes are immediately due and repayable whereupon they shall become immediately due and repayable at their principal amount, together with interest accrued to the date of repayment, if any of the following events ("**Events of Default**") occurs and is continuing:

12.1.1 **Non-payment**: If the Issuer fails to pay any principal or interest on any of the Notes when due and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or

12.1.2 **Breach of other obligations**: If the Issuer or the Guarantor fails to perform or comply with any of its other obligations under these Conditions or the Guarantee and the failure continues for the period of 30 days following the service by any Noteholder on the Issuer or the Guarantor (as the case may be) of notice requiring the default to be remedied; or

12.1.3 **Cross default**: If (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries (as defined below) becomes capable of being declared due and repayable prior to its stated maturity by reason of an event of default or potential event of default (however described); (ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment as extended by any originally applicable grace period; (iii) any security given by the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for

Borrowed Money of any other person; provided that no event described in this Condition 12.1.3 shall constitute an Event of Default unless the Indebtedness for Borrowed Money or other relative liability due and unpaid, either alone or when aggregated(without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) to (iv) above which have occurred and are continuing, amounts to at least US$15,000,000 (or its equivalent in any other currency); or

12.1.4 **Winding-up**: If any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, save for:

(A) any solvent voluntary winding up or dissolution of any Principal Subsidiary which would not have any Material Adverse Effect; or

(B) the purposes of or pursuant to any reorganisation on terms approved by an Extraordinary Resolution of the Noteholders; or

12.1.5 **Cessation of business**: If the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or announces (or in the case of any Principal Subsidiary, the Guarantor announces in respect of that Principal Subsidiary) an intention to cease to carry on the whole or a substantial part of its business, save for:

(A) any cessation or threatened cessation of the business of any Principal Subsidiary which would not have any Material Adverse Effect;

(B) pursuant to any disposal of business which is (i) on arm's length terms, (ii) for market value and (iii) on normal commercial terms; or

(C) the purposes of or pursuant to any reorganisation on terms approved by an Extraordinary Resolution of the Noteholders; or

12.1.6 **Insolvency**: The Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

12.1.7 **Liquidation and insolvency proceedings**: If (i) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company is not discharged within 30 days; or

12.1.8 **Creditors arrangement**: If the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

12.1.9 **Guarantee**: If the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect; or

12.1.10 **Ownership**: If the Issuer ceases to be a subsidiary wholly-owned and controlled, directly or indirectly, by the Guarantor; or

12.1.11 **Nationalisation**: Any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of their Principal Subsidiaries; or

12.1.12 **Analogous event**: if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have an analogous effect to any of the events referred to in Conditions 12.1.4 to 12.1.10 above;

12.1.13 **Validity**: if the validity of the Notes or the Guarantee is contested by the Issuer or the Guarantor, or the Issuer or the Guarantor denies any of the Issuer's or the Guarantor's obligations under the Notes or the Guarantee or it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes or the Guarantee or any of such obligations are or become unenforceable or invalid.

12.2 Interpretation

For the purposes of this Condition:

"**Agreements**" means (i) the subscription agreement dated 10 October 2013 between the Issuer, the Guarantor, the joint lead managers and the co-manager thereunder; (ii) the Fiscal Agency Agreement, (iii) the Guarantee and (iv) the Deed of Covenant.

"**Deed of Covenant**" means the deed of covenant dated the Closing Date executed by the Issuer.

"**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

"**Material Adverse Effect**" means a material adverse effect on (i) the financial condition, business, prospects and results of operations of the Issuer, the Guarantor or the Group as a whole whether or not arising in the ordinary course of business or (ii) the ability of the Issuer or the Guarantor, as the case may be, to perform its obligations under the Agreements or the Notes or (iii) the validity or enforceability of the obligations of the Issuer or the Guarantor under the Agreements and the Notes;

"**Principal Subsidiary**" means at any time a Subsidiary of the Guarantor:

(i) whose turnover (consolidated in the case of a Subsidiary which itself has Subsidiaries), whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, are equal to) not less than 10.0 per cent. of the consolidated turnover, consolidated net profits, or, as the case may be, consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor and its Subsidiaries, provided that in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Guarantor and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Guarantor;

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (ii) on the date on which the consolidated accounts of the Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Guarantor and its Subsidiaries relate, generate turnover or net profits equal to) not less than 10.0 per cent. of the consolidated turnover or net profits, or represent (or, in the case aforesaid, are equal to) not less than 10.0 per cent. of the consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate turnover or net profits equal to) not less than 10.0 per cent. of the consolidated turnover or net profits, respectively, or its assets represent (or, in the case aforesaid, are equal to) not less than 10.0 per cent. of the consolidated total assets, of the Guarantor and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph;

(iv) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (iii) on the date on which the consolidated accounts of the Guarantor and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

12.3 Reports

A report by two directors of the Guarantor that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, shall, in the absence of manifest error, be conclusive and binding on all parties.

12.4 Certificates

12.4.1 Any Noteholder may by notice in writing to the Issuer require that the Guarantor provide it with a certificate signed by a director of the Guarantor as duly authorised by the board of directors of the Guarantor certifying that:

(A) any voluntary solvent winding up or dissolution of any Principal Subsidiary referred to in Condition 12.1.4(A) would not have a Material Adverse Effect; and

(B) any cessation or threatened cessation of business of any Principal Subsidiaries:

(1) would not have any Material Adverse Effect, and/or

(2) is pursuant to a disposal of business which is (i) on arm's length terms, (ii) for market value and (iii) on normal commercial terms.

12.4.2 The Issuer should procure that the Guarantor within five business days of such request provide such certificate to the relevant Noteholder.

13. PRESCRIPTION

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 9 (*Payments*) within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 11 (*Taxation*).

14. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar, subject to any applicable laws or stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence, security, indemnity or otherwise as the Issuer or the Guarantor may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. NOTICES

15.1 Notices to the Noteholders

All notices to Noteholders will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the third day after mailing and (b) if and for so long as the Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

So long as all the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Conditions.

15.2 Notices from the Noteholders

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Certificate, with the Fiscal Agent.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

16.1 Meetings of Noteholders

The Fiscal Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or the Guarantee or any of the provisions of the Fiscal Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, unless the business of such meeting includes consideration of proposals (i) to change the maturity date of the Notes or to reduce or cancel the principal amount payable at maturity, (ii) to reduce or cancel the amount payable or change the payment date in respect of any interest in respect of the Notes, (iii) to change the currency of payment of the Notes, (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or (v) to modify or cancel the Guarantee, in which case, the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

16.2 Modification

The Issuer may agree with the Fiscal Agent to modify any provision of a formal, minor or technical nature or correct a manifest error in the Fiscal Agency Agreement without the consent of the Noteholders but shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

17. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes in all respects, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing Law

The Guarantee, the Fiscal Agency Agreement and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

18.2 Jurisdiction of English Courts

Each of the Issuer and the Guarantor has, irrevocably agreed for the benefit of the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including any dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly has submitted to the exclusive jurisdiction of the English courts.

Each of the Issuer and the Guarantor has waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

18.3 Appointment of Process Agent

Each of the Issuer and the Guarantor irrevocably and unconditionally appoints Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX United Kingdom as its agent for service of process in England in respect of any suit, action or proceeding arising out of or in connection with the Notes respectively (including any suit, action or proceedings relating to any non-contractual obligations arising out of or in connection with the Notes) (together referred to as "**Proceedings**") and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

18.4 Sovereign Immunity

The Issuer hereby irrevocably and unconditionally waives and agrees not to raise with respect to the Notes any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

18.5 Other Documents

Each of the Issuer and the Guarantor has in the Fiscal Agency Agreement and the Guarantee submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above. In addition, each of the Issuer and the Guarantor has, in such documents, waived any rights to sovereign immunity and other similar defences which it may have.

19. RIGHTS OF THIRD PARTIES

No person shall have any right to enforce any term of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATE

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. Accountholders

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer and the Guarantor, solely in the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

2. Cancellation

Cancellation of any Note following its redemption or purchase by the Issuer or the Guarantor will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the relevant Global Certificate.

3. Payments

Payments of principal in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

4. Notices

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 15 (*Notices*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. Put Option

In the event that less than all the Notes are redeemed, the aggregate principal amount of the Notes to be redeemed will be allocated to the Global Certificate and the Global Certificates will be written down to reflect the redemption.

6. Registration of Title

Registration of title to Notes in a name other than that of the Relevant Nominee will only be permitted if:

(i) an Event of Default has occurred and is continuing; or

(ii) in the case of Notes registered in the name of nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor or alternative clearing system is available; or

(iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Global Certificate in definitive form and a certificate to such effect signed by two directors of the Issuer has been given to the Fiscal Agent.

In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

7. Transfers

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear, Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under the section entitled "*Clearing and Settlement*" in this Offering Circular.

USE OF PROCEEDS

The net proceeds from the Offering are estimated to be approximately US$399.2 million after deducting managers' fees and expenses. The net proceeds of the Offering will be used by the Company's principal subsidiaries for general corporate purposes.

INFORMATION ON EXCHANGE RATES

PRC

Under current PRC regulations, RMB is convertible for "current account transactions", which include, among other things dividend payments and payments for the import of goods and services, subject to compliance with certain procedural requirements. Although the RMB has been fully convertible for current account transactions since 1996, there can be no assurance that the relevant PRC government authorities will not limit or eliminate the Group's ability to purchase and retain foreign currencies for current account transactions in the future. Conversion of RMB into foreign currencies and of foreign currencies into RMB, for payments relating to "capital account transactions", which principally include investments and loans, generally requires the approval of the SAFE, and other relevant PRC governmental authorities.

The value of the RMB against US dollars, HK dollars and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to US dollars. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. Following the removal of the US dollar peg, the RMB appreciated more than 20% against US dollars over the following three years. Since reaching a high against US dollars in July 2008, however, the RMB has traded within a narrow range against US dollars, remaining within 1% of its July 2008 high but never exceeding it. As a consequence, the RMB has fluctuated significantly since July 2008 against other freely traded currencies, in tandem with US dollars. It is difficult to predict how long the current situation may last and when and how RMB exchange rates may change going forward.

The following table sets forth the average, high, low and period-end exchange rates between the RMB and the US dollar (in RMB per US$1.00) at the noon buying rate in New York City for cable transfers in foreign currencies for the periods indicated (the Noon Buying Rate).

	Noon Buying Rate			
	Period End	**Low**	**Average(1)**	**High**
	(RMB per US$)			
2008	6.8225	7.2946	6.9193	6.7800
2009	6.8259	6.8470	6.8295	6.8176
2010	6.6000	6.8330	6.7696	6.6000
2011	6.2939	6.6364	6.4630	6.2939
2012	6.2301	6.2221	6.2990	6.3879
2013				
January	6.2186	6.2134	6.2215	6.2303
February	6.2213	6.2213	6.2323	6.2438
March	6.2018	6.2105	6.2154	6.2246
April	6.1647	6.1647	6.1861	6.2078
May	6.1340	6.1213	6.1416	6.1665
June	6.1374	6.1248	6.1342	6.1488
July	6.1284	6.1284	6.1343	6.1408
August	6.1193	6.1109	6.1209	6.1302
September (through 27 September)	6.1179	6.1178	6.1284	6.2842

Source: Federal Reserve Bank of New York for the periods through December 2008 and the Federal Reserve H.10 Statistical Release for the periods beginning on or after 1 January 2009.

Note:

(1) Annual average is calculated by averaging the rates on the last business day of each month during the annual period. Monthly averages are calculated by averaging the rates on each business day during the month.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies (including the US dollar).

Since 17 October 1983, the Hong Kong dollar has been pegged to the US dollar at the rate of HK$7.80 to US$1.00. The central element in the arrangement which gave effect to this peg is that, by agreement between the Hong Kong Government and the three Hong Kong banks that issue Hong Kong dollar banknotes, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (Hong Kong) Limited, certificates of indebtedness (which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issue) are issued and redeemed only against payment in US dollars, at the fixed exchange rate of US$1.00 to HK$7.80. When banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent amount of US dollars at the fixed rate of exchange.

The market exchange rate of the Hong Kong dollar against the US dollar continued to be determined by the forces of supply and demand in the foreign exchange market. In light of the fixed rate for the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00 since 17 October 1983. In May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per US dollar to a rate range of HK$7.75 to HK$7.85 per US dollar.

The Hong Kong Government has stated its intention to maintain the link at that rate, and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the US dollar. However, no assurance can be given that the Hong Kong Government will maintain the link within the range of HK$7.75 to HK$7.85 per US dollar or at all, or will not in the future impose exchange controls. Exchange rates between the Hong Kong dollar and other currencies are influenced by the exchange rate between the US dollar and such currencies.

During the general economic downturn in Asia in 1998, however, the Hong Kong Government intervened on several occasions in the foreign exchange market by purchasing Hong Kong dollars and selling US dollars to support the value of the Hong Kong dollar.

The following table sets forth the average, high, low and period-end exchange rates between the Hong Kong dollar and the US dollar (in HK$ per US$1.00) at the noon buying rate in New York City for cable transfers in foreign currencies for the periods indicated (the Noon Buying Rate).

	Noon Buying Rate			
	Period End	Low	Average(1)	High
	(HK$ per US$)			
2008	7.7499	7.7862	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7399
2010	7.7810	7.7686	7.8040	7.7501
2011	7.7663	7.7841	7.8087	7.7634
2012	7.7507	7.7493	7.7569	7.7699
2013				
January	7.7560	7.7503	7.7530	7.7585
February	7.7546	7.7531	7.7552	7.7580
March	7.7629	7.7551	7.7592	7.7640

	Noon Buying Rate			
	Period End	Low	Average(1)	High
	(HK$ per US$)			
April	7.7610	7.7606	7.7631	7.7652
May	7.7625	7.7587	7.7614	7.7639
June	7.7560	7.7534	7.7602	7.7654
July	7.7558	7.7535	7.7567	7.7587
August	7.7544	7.7537	7.7553	7.7564
September (through 27 September)	7.7539	7.7533	7.7542	7.7557

Source: Federal Reserve Bank of New York for the periods through December 2008 and the Federal Reserve H.10 Statistical Release for the periods beginning on or after 1 January 2009.

Note:

(1) Annual average is calculated by averaging the rates on the last business day of each month during the annual period. Monthly averages are calculated by averaging the rates on each business day during the month.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Group

The following table sets forth the Group's capitalisation and indebtedness as at 30 June 2013 and as adjusted to give effect to this Offering and other notes issued after 30 June 2013. You should read this table in conjunction with the Group's consolidated financial information and related notes included elsewhere in this Offering Circular.

	As at 30 June 2013			
	Actual		As Adjusted(2)	
	(HK$ in millions)	(US$ in millions)(1)	(HK$ in millions)	(US$ in millions)(1)
Total borrowings				
Interest-bearing notes	13,489.4	1,739.0	13,489.4	1,739.0
Bank loans and other borrowings	7,156.2	922.6	7,156.2	922.6
Notes issued after 30 June 2013	–	–	4,653.6	600.0
Notes offered hereby	–	–	3,102.4	400.0
Total borrowings	**20,645.6**	**2,661.6**	**28,401.6**	**3,661.6**
Owners' equity				
Share capital	3,594.5	463.4	3,594.5	463.4
Reserves	13,046.0	1,681.9	13,046.0	1,681.9
Employee share-based compensation reserve of a subsidiary	13.9	1.8	13.9	1.8
Non-controlling interests	15,573.0	2,007.6	15,573.0	2,007.6
Total equity	**32,227.4**	**4,154.7**	**32,227.4**	**4,154.7**
Total Capitalisation(3)	**52,873.0**	**6,816.3**	**60,629.0**	**7,816.3**

Notes:

(1) A rate of HK$7.7560 to US$1.00 (the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States as at the end of June 2013) was adopted for the conversion of HK dollars to US dollars.

(2) The "as adjusted" columns reflect the aggregate principal amount of the Notes and other notes issued after 30 June 2013. See *"Description of the Group — Recent Developments"* in this Offering Circular.

(3) Total capitalisation represents the sum of total borrowings and total equity.

Excepted as otherwise disclosed herein, there has been no material change in the Group's capitalisation since 30 June 2013.

Capitalisation and Indebtedness of the Issuer

As at the date of this Offering Circular, the Issuer is authorised to issue a maximum of 50,000 shares of a single class without par value and one share has been issued to and is held by the Guarantor, representing the entire issued capital of the Issuer. The Issuer does not have any debt outstanding other than the Notes to be issued on the Issue Date.

The information and statistics set out in this section have been derived, in part, from various government publications and databases or publicly available sources, unless indicated otherwise. This information has not been independently verified by the Issuer, the Company, the Joint Lead Managers, the Co-Manager or any of their respective affiliates and advisors or any other party involved in this offering. The information and statistics set out in this section may not be consistent with other information and statistics compiled within or outside the PRC.

PRC Insurance Industry

Overview

The PRC insurance market is the second largest in Asia after Japan in terms of total premiums and the fourth largest worldwide, according to Sigma Report No. 3/2013 published by Swiss Reinsurance Company ("Sigma Report"). According to CIRC, gross premiums written in the PRC in 2012 reached RMB1,548.8 billion, of which RMB890.8 billion was from the life insurance business (excluding accident and health insurance) and RMB657.9 billion was from the non-life insurance business. The PRC insurance market is also one of the fastest growing insurance markets in the world. From 1999 to 2012, gross premiums written by life insurance companies and non-life insurance companies in the PRC increased, at a CAGR of 20.7% and 19.8%, respectively from RMB76.8 billion to RMB890.8 billion and RMB62.5 billion to RMB657.9 billion, respectively.

According to data published by the CIRC, as at 30 June 2013, there were 69 life and health insurance companies operating in the PRC, of which 27 were foreign-invested life and health insurance companies. There were 63 property and casualty insurance companies operating in the PRC, of which 21 were foreign-invested property and casualty companies. Currently, PRC insurance companies distribute products through individual insurance agents, bancassurance, direct sales and other distribution channels.

Key factors in the dramatic expansion of the PRC insurance market include economic reform initiatives undertaken by the PRC government over the past three decades, leading to significant increases in GDP and disposable income per capita. These trends have, in turn, given rise to increases in automobile ownership and household properties, and have led to significant increases in individual and corporate assets, as well as significant changes in a number of demographic trends, in the PRC. The higher levels of income have also led to more interest in savings and retirement, and risk protection, among the people of the country.

History and development of the PRC insurance industry

After three decades of inactivity since 1949, the PRC commercial insurance industry resumed its business in 1979, and the People's Insurance Company of China re-started its operations as an independent insurance company under the supervision of the PBOC in 1983. Subsequently, other PRC commercial insurance companies, such as Ping An Insurance (Group) Company of China, Ltd, were established. Since American International Assurance Company gained approval to establish its first PRC branch in Shanghai in 1992, foreign insurers have also taken an active role in the development of the PRC insurance industry.

In response to developments in the insurance industry, the PRC Insurance Law, which sets forth the legal framework for regulating the PRC insurance industry, was promulgated in 1995. In 1998, the CIRC was established and assumed the regulatory functions for supervising the insurance industry previously vested in the PBOC. Under the PRC Insurance Law promulgated in 1995, insurance was classified into two categories: life insurance (including life, accident and health insurance) and property and casualty insurance (including property, casualty, liability and credit insurance, among others). In 2002 and 2009, the PRC Insurance Law was amended in response to further developments in the PRC insurance industry.

During the initial stages of its development, the PRC insurance market was characterised by limited product offerings and distribution channels. Over time, the number of products has increased substantially, while the distribution channels have expanded to include individual insurance agents, bancassurance and direct and other channels.

Current condition of PRC insurance industry

Industry development and international comparison

The PRC life insurance market has been expanding rapidly in recent years. Gross premiums written from the life insurance business (excluding accident and health insurance) grew at a CAGR of approximately 18.8% between 2002 and 2012. In 2012, the PRC was the second largest life insurance market in Asia after Japan and the fourth largest in the world in terms of gross premiums written.

The PRC non-life insurance (including accident and health insurance) market is also one of the fastest growing insurance markets in the world. Gross premiums written from non-life insurance business grew at a CAGR of approximately 24.4% between 2002 and 2012. In 2012, the PRC was the second largest non-life insurance market in Asia after Japan and the sixth largest in the world in terms of gross premiums written.

The following table sets forth the insurance premiums received by life insurance and property and casualty insurance companies in the PRC and related annual growth rates from 2002 to 2012:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	(in millions of USD, except growth rates)										
Life insurance[1]	25,202	33,093	34,449	39,604	45,029	58,673	95,828	109,175	142,999	134,539	141,208
Annual growth rate	62.0%	31.3%	4.1%	15.0%	13.7%	30.3%	63.3%	13.9%	31.0%	-5.9%	5.0%
Property and casualty insurance	11,760	13,788	17,722	20,540	25,708	33,810	44,986	53,872	71,628	87,319	104,302
Annual growth rate	18.5%	17.2%	28.5%	15.9%	25.2%	31.5%	33.1%	19.8%	33.0%	21.9%	19.4%

Source: Sigma Reports

(1) Excluding accident and health insurance.

While the PRC insurance market has experienced rapid growth, it remains relatively under-developed, in terms of insurance penetration rate, when compared to the developed markets. In 2012, total life insurance premiums and total non-life insurance premiums as a percentage of GDP were approximately 1.7% and 1.3%, respectively, in the PRC, compared to 9.2% and 2.3%, respectively, in Japan (financial year 1 April 2012 to 31 March 2013) and 3.7% and 4.5%, respectively, in the United States (in each case as classified in Sigma Report No. 3/2013). The PRC insurance market also has a relatively low insurance density, measured by total insurance premiums per capita, for both of its life insurance and non-life insurance businesses, compared to the developed markets. In 2012, the PRC life insurance density and non-life insurance density rates were US$103 and US$76, respectively, compared to US$4,143 and US$1,025 in Japan (financial year: 1 April 2012 to 31 March 2013) and US$1,808 and US$2,239 in the United States (in each case as classified in Sigma Report No. 3/2013). These comparatively low insurance penetration and density rates, coupled with favourable economic development, regulatory environment and demographic trends, suggest the strong potential for further growth in the PRC insurance market.

The following table presents certain economic and insurance premium data for the PRC, the United States and certain selected countries and regions in Asia and Europe in 2012:

	Economic indicator			Life insurance			Non-life insurance[(1)]		
Market	**Nominal GDP**	**Nominal GDP per capita**	**GDP real growth**	**Premiums**	**Insurance Penetration**	**Insurance density[(2)]**	**Premiums**	**Insurance Penetration**	**Insurance density[(2)]**
	(in billions of US$, except per capita and percentages)			(in billions of US$, except per capita and percentages)			(in billions of US$, except per capita and percentages)		
PRC	8,303	6,290	7.8%	141.2	1.7%	103	104.3	1.3%	76
United States	15,542	51,743	2.2%	567.8	3.7%	1,808	703.1	4.5%	2,239
Japan[(3)]	5,716	47,280	-0.5%	524.4	9.2%	4,143	130.0	2.3%	1,025
Germany	3,399	41,110	3.1%	106.4	3.1%	1,299	125.5	3.6%	1,505
France	2,605	39,230	1.7%	149.3	5.6%	2,239	93.1	3.3%	1,304
United Kingdom	2,440	37,450	0.9%	205.9	8.4%	3,256	105.5	2.8%	1,094
India[(3)]	1,679	1,508	6.2%	53.3	3.2%	43		13.1	0.8%
South Korea[(3)]	1,149	22,590	3.6%	78.9	6.9%	1,578	60.4	5.3%	1,207
Switzerland	632	78,910	1.9%	33.2	5.3%	4,121	27.4	4.3%	3,401
Taiwan	482	20,390	4.0%	72.5	15.0%	3,107	15.2	3.2%	653
Hong Kong	263	36,800	4.9%	29.0	11.0%	4,025	3.7	1.4%	519
Singapore	277	51,400	5.3%	12.3	4.4%	2,472	9.8	1.6%	890

Source: Sigma Report No 3 2013, Swiss Reinsurance Company; IMF

(1) Including property and casualty insurance, accident insurance and health insurance.

(2) Insurance penetration rate is defined as gross premiums as a percentage of GDP, and insurance density rate is defined as gross premiums per capita (in each case, with gross premiums excluding cross-border business for the calculation).

(3) Financial year: 1 April 2012 to 31 March 2013, except for GDP.

Geographical distribution

The PRC insurance market exhibits significant geographical variations in its development. According to data published by the CIRC, in 2012, gross premiums written generated in each of Guangdong (excluding Shenzhen), Jiangsu, Beijing, Shandong (excluding Qingdao), Henan, Shanghai, Sichuan, and Hebei for life insurance (including accident and health insurance) business exceeded RMB50.0 billion, accounting in the aggregate for approximately 48.5% of the total gross premiums written in the PRC for life insurance (including accident and health insurance) business in that period. In the same period, gross premiums written generated in each of Jiangsu, Guangdong (excluding Shenzhen), Zhejiang, Shandong (excluding Qingdao), Sichuan, Beijing, Hebei and Shanghai for property and casualty insurance (excluding accident and health insurance) business exceeded RMB25.0 billion, accounting in the aggregate for approximately 52.2% of the total gross premiums written for property and casualty insurance (excluding accident and health insurance) business in the PRC in the same period.

Compared to the more developed insurance markets in China's eastern region, the insurance markets in the north-eastern, central and western regions are smaller with lower insurance densities, but possess a greater growth potential.

General condition of insurance fund deployment

According to the data published by the National Bureau of Statistics of China, insurance funds have grown rapidly along with the rapid development of the PRC insurance industry, representing a CAGR of approximately 26.7% from 2005 to 2010. According to data published by CIRC, as at 31 December 2012, the aggregate balance of insurance fund investments in the PRC was RMB6,850 billion, approximately 44.7% of insurance funds were invested in debt securities, 34.2% in bank deposits, 11.8% in securities investment funds and 3.1% in stocks (equity interests) as at 31 December 2012. The average investment return of the PRC insurance industry was 3.39% in 2012.

In addition, the CIRC has been steadily promoting the reform of insurance asset management, which has led to the establishment of a number of insurance asset management companies. In 2010 and 2012, the CIRC promulgated various important rules and regulations to further expand the scope of insurance fund deployment. Currently, the permitted scope of insurance fund deployment for PRC insurance companies includes bank deposits, debt securities, stocks, securities investment funds, real estate, infrastructure projects, equity interests in private companies and offshore investments. The further expansion of the scope of permitted investments for PRC insurance companies has created a need for greater investment capabilities and risk management capabilities within insurance companies.

Principal participants in the PRC insurance market

Based on PRC GAAP financial data published by the CIRC, China Life, Ping An Life, and CPIC Life together held approximately 54.5% of the market share, in terms of gross premiums written, in life insurance (including accident and health insurance) in the first six months of 2013, while PICC P&C, Ping An P&C, and CPIC P&C together held approximately 64.6% of the market share, in terms of gross premiums written, in property and casualty insurance in the first six months of 2013.

The following table sets forth the market shares in terms of gross premiums written (excluding premiums assumed from other insurers), based on PRC GAAP financial data published by the CIRC, held by the top insurers in the life and property and casualty segments of the PRC insurance industry in 2012:

Life insurance(1)

Rank	Company	Market share
1	China Life Insurance (Group) Company	32.4%
2	Ping An Life Insurance Company of China Ltd.	12.9%
3	New China Life Insurance Company Ltd.	9.8%
4	China Pacific Life Insurance Company Ltd.	9.4%
5	PICC Life Insurance Company Ltd.	6.4%
6	Taikang Life Insurance Company Ltd.	6.2%
7	Taiping Life Insurance Company Ltd.	3.7%
8	Sino Life Insurance Company Ltd.	2.5%
9	Sunshine Life Insurance Company Ltd.	1.6%
10	China Post Life Insurance Company Ltd.	1.5%
11	Others	13.6%

Property and casualty insurance

Rank	Company	Market share
1	PICC Property and Casualty Company, Ltd.	34.9%
2	Ping An Property & Casualty Insurance Company of China Ltd.	17.9%
3	China Pacific Property Insurance Company, Ltd.	12.6%
4	China United Property Insurance Company	4.4%
5	China Life Property and Casualty Insurance Company Ltd.	4.3%
6	China Continent Property & Casualty Insurance Company, Ltd.	3.2%
7	Sunshine Property and Casualty Insurance Company, Ltd.	2.7%
8	China Export & Credit Insurance Corporation(2)	2.6%
9	Tianan Insurance Company Ltd.	1.5%
10	Taiping General Insurance Ltd.	1.4%
11	Others	14.5%

Source: CIRC

(1) Including accident and health insurance.

(2) Mainly providing export credit insurance.

The following table sets forth the market shares in terms of gross premiums written (excluding premiums assumed from other insurers), based on PRC GAAP financial data published by the CIRC, held by the top insurers in the life and property and casualty segments of the PRC insurance industry in the first six months of 2013:

Life insurance[1]

Rank	Company	Market share
1	China Life Insurance (Group) Company	32.5%
2	Ping An Life Insurance Company of China Ltd.	13.8%
3	China Pacific Life Insurance Company Ltd.	9.0%
4	New China Life Insurance Company Ltd.	8.2%
5	PICC Life Insurance Company Ltd.	6.0%
6	Taikang Life Insurance Company Ltd.	6.0%
7	Taiping Life Insurance Company Ltd.	5.2%
8	China Post Life Insurance Company Ltd.	3.0%
9	Sino Life Insurance Company Ltd.	1.9%
10	Sunshine Life Insurance Company Ltd.	1.3%
11	Others	13.1%

Property and Casualty Company

Rank	Company	Market share
1	PICC Property and Casualty Company Ltd.	35.3%
2	Ping An Property & Casualty Insurance Company of China Ltd.	16.4%
3	China Pacific Property Insurance Company Ltd.	12.9%
4	China United Property Insurance Company	5.0%
5	China Life Property & Casualty Insurance Company Ltd.	4.9%
6	China Continent Property & Casualty Insurance Company Ltd.	3.0%
7	Sunshine Property and Casualty Insurance Company Ltd.	2.5%
8	China Export & Credit Insurance Corporation[2]	1.7%
9	Taiping General Insurance Company Ltd.	1.6%
10	Tianan Insurance Company Ltd.	1.5%
11	Others	15.2%

Source: CIRC

(1) Including accident and health insurance.

(2) Mainly providing export credit insurance.

Factors affecting the PRC insurance industry development

Rapid economic growth

In 1978, the PRC government initiated a policy of economic reform and started to open the country gradually to the outside world, which has promoted the rapid and sustained growth of China's economy. Rapid economic growth has resulted in substantial wealth creation and accumulation in the PRC. The growth of social wealth and the change in social structure have continuously improved purchasing power and the willingness to purchase insurance products; effective insurance demand has continued to increase. Since the beginning of its economic reforms, the PRC has experienced rapid increases in GDP and GDP per capita. Although it has witnessed a slowdown in its economic growth since the global financial crisis which unfolded in 2008, the PRC has better weathered the crisis and experienced better economic recovery compared to most other countries.

The following table sets forth China's nominal GDP, nominal GDP per capita and life insurance and property and casualty insurance gross premiums written from 2002 to 2012:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	CAGR 2002-2012
	(in billions of RMB, except per capita data)											
Nominal GDP[(1)]	12,033	13,582	15,988	18,494	21,631	26,581	31,405	34,090	40,151	47,156	51,932	15.75%
Nominal GPD per capita (RMB)[(1)]	9,368	10,510	12,299	14,144	16,456	20,117	23,648	25,545	29,943	34,999	37,853	14.99%
Life insurance gross premiums written[(2)]	208.1	266.9	284.6	324.5	359.0	446.3	665.8	754.7	968.0	869.6	891.0	15.7%
Property and casualty insurance gross premiums written[(2)]	97.3	121.1	146.7	168.3	205.0	257.0	312.6	368.0	484.9	564.4	658.0	21.1%

Source:

(1) IMF

(2) Sigma Reports from 2003 to 2013 published by Swiss Reinsurance Company; life insurance does not include health and accident insurance

The following table sets forth several major economies' nominal GDP from 2007 to 2012 and the respective CAGRs:

	Nominal GDP (current price) (in billions of USD)						
	2007	2008	2009	2010	2011	2012	CAGR 2007-2012
China	3,494	4,520	4,991	5,930	7,298	8,303	18.9%
India	1,153	1,263	1,266	1,630	1,827	1,679	7.8%
Brazil	1,366	1,650	1,622	2,143	2,493	2,252	10.5%
Russia	1,300	1,661	1,223	1,487	1,850	1,952	8.5%
United States	14,029	14,292	13,974	14,499	15,076	15,542	2.0%
Japan	4,356	4,849	5,035	5,489	5,867	5,716	5.6%
European Union	17,005	18,356	16,375	16,301	17,611	16,567	-0.5%

Source: IMF

The generally rapid growth of the PRC economy since the beginning of its economic reform has led to a significant increase in disposable income per capita as well as significant growth in individual and corporate assets. On the one hand, the increase in disposable income per capita has resulted in a higher demand for life insurance products as investment, savings and protection options and for health insurance products. On the other hand, the increase in disposable income per capita has led to an increase in automobile ownership and properties, prompting a higher demand for automobile insurance and property-related insurance, among others. The growth in corporate assets has also driven the increase in demand for commercial property insurance. The rapid growth of the PRC economy has thus been the primary driver for the increase in insurance premiums in the PRC.

Favourable government policies

The State Council promulgated its Certain Opinions on the Development and Reform of the Insurance Industry, or the "Certain Opinions," in June 2006. Under the Certain Opinions, the PRC is expected to establish a multi-tier social security system that encourages insurance companies to offer commercial pension insurance, health insurance and liability insurance products to meet the insurance needs of both urban and rural residents of different income levels and different occupations. In October 2010, the National People's Congress passed the PRC Social Security Law (中華人民共和國社會保險法), which took effect on

1 July 2011. This law sets forth the frame work for the future PRC social security system. It is expected that these social welfare reform initiatives will further stimulate long-term demand for life insurance, health insurance, pension insurance and other insurance-related products and create new opportunities for the further development of the PRC life insurance industry in the future.

In April 2009, the central government unveiled a three-year health care reform plan with a budget of RMB850 billion (USD121.95 billion), which should help bolster demand for medical insurance going forward. The plan aims to provide universal and equitable access to basic health insurance, introduce a pharmaceutical system ensuring affordable access to essential medication for everyone, improve primary healthcare facilities and reform state-run hospitals.

Social welfare reform

The PRC is in the midst of a social welfare reform, which gradually reduces or eliminates the benefits which the government or State-owned enterprises have traditionally provided to their employees, such as housing, medical and retirement benefits, and shifts the responsibility for providing such social welfare benefits to a mix of the government, enterprises and to the individuals themselves. A multitiered social welfare and security system is gradually being established to provide basic pension insurance, corporate pension insurance and individual commercial insurance. In March 2009, the State Council released a series of social medical reform opinions and launched a related implementation plan, which encourages commercial insurance companies to develop diversified health insurance products and simplify claims handling procedures to better serve different healthcare needs of the population. The PRC government also supports insurance companies in their participation in basic social medical security services and in making prudent investment in medical institutions. In addition to offering group and individual insurance products to supplement the social welfare system, insurance companies are also permitted to cooperate with medical institutions in providing innovative medical service models and managing medical risks and to benefit financially from such cooperation.

Moreover, the PRC government is in the process of setting up a pension system that comprises basic social pension insurance, supplementary corporate pension insurance, or corporate annuities, and commercial pension insurance. To this end, the PRC government may adopt preferential tax policies and other measures to support the development of corporate annuity products and commercial pension insurance products. The State Council's opinions on turning Shanghai into an international financial centre and an international shipping centre, issued in April 2009, have also indicated that tax-deferred pension insurance products may be introduced on a pilot basis in Shanghai.

These social welfare reform initiatives are expected to stimulate long-term demand for life insurance, health insurance, pension plans and other insurance-related products in the future, which, it is hoped, will create new opportunities for the further development of the PRC insurance industry.

Change in savings habits

The traditionally high savings rate in the PRC, coupled with the wealth generated by the economic reforms, has resulted in significant increases in individual savings. Traditionally, households in the PRC have generally placed most of their savings in bank deposits and have invested relatively small amounts of their savings in life insurance products and pension funds. In contrast, households in the United States and United Kingdom have generally invested a substantially higher portion of their savings in life insurance products and pension funds. As disposable incomes rise, PRC consumers are expected to look to insurance products with investment-like features as well as other investment products as alternatives to savings accounts.

Demographic transformations

The PRC is undergoing significant demographic transformations, including an increase in life expectancy, a decrease in birth rate, an ageing population and a growth in urban population and income, all of which are expected to create substantial growth opportunities for life insurance, health insurance and pension products.

For example, the percentage of the population aged 65 or older in the PRC is expected to increase from 7.7% in 2005 to approximately 11.2% by 2020, according to the National Development and Reform Commission. As a result of an increase in life expectancy and a decrease in birth rate, a typical family in the PRC will, in the future, have fewer income-earning members to support the elderly, which will likely further increase the demand for insurance products. The continued increase in rural residents' income in recent years, coupled with higher risk and insurance awareness among the rural population, has also made the vast rural area in the PRC an increasingly relevant insurance market and a potential driving force of long-term industry growth.

Increased automobile ownership

For the property and casualty insurance products, major types include motor, enterprise property, agriculture, liability, and accident according to the Chinese Insurance Market Report published by Swiss Reinsurance Company. As the Chinese economy re-orientates itself to a more consumption driven one, auto sales continue to grow at a rapid clip. Motor insurance has benefited from robust new vehicle sales in China in recent years. Despite the economic slowdown, automobile sales maintained their strong growth momentum in 2009 to 2012 due to policy stimulus and a low base in 2008. Going forward, growth will increasingly be influenced by the planned liberalisation of motor premiums rates and increasing restrictions on car ownership/usage in some major cities, like Beijing, in order to control heavy traffic and air pollution.

Trends in PRC insurance industry

Diversification in insurance needs

As the PRC insurance market develops, customers have become more aware of their insurance needs. At the same time, the continued growth of the PRC economy has contributed to greater consumer power in the PRC insurance market. As a result, the demand for a greater variety of insurance products is increasing. In addition to traditional insurance products, liability insurance, health insurance and long-term savings-type insurance products are experiencing a higher demand. Since the global financial crisis began in late 2008, the market has also seen rising demand for risk-protection-type and saving-type insurance products.

Increasingly sophisticated product and service offerings

PRC insurance companies have become increasingly sophisticated in their product and service offerings in recent years. Major insurers in the PRC have shifted their product development and marketing strategy from the one-size-fits-all single-product approach to a demand-oriented approach, with products tailored to different segments of their customer base, such as customers belonging to different age groups or income levels. PRC insurance companies are also increasingly focused on the training and development of their sales forces to identify and offer customised products, which are of higher added value, to their customers. Consumers of insurance products in the PRC have also become more sophisticated. While they have generally started to become less price-sensitive than before, they are increasingly focused on an insurance company's ability to provide integrated and consistent end-to-end services from sales to claims payment. As a result, the competitive environment of the PRC insurance industry has become more complex, as insurance companies seek to differentiate themselves by offering value-added products and integrated services.

Diversification in distribution channels

Insurance distribution channels have been proliferating in the PRC. Insurance companies in the PRC have primarily relied on individual insurance agents, bancassurance and direct sales to distribute their products. In recent years, there has been an increase in the use of new sales methods, such as wealth management, Internet sales and telemarketing. Some insurance companies are also collaborating with retailers, social groups and other entities to expand sales.

Increased investment channels

Insurance companies in the PRC generally have limited investment opportunities due to the lack of available investment options and vehicles as a result of legal and regulatory constraints as well as the ongoing development of the capital markets. The CIRC has traditionally allowed PRC insurance companies to invest in corporate bonds issued by PRC companies that are rated AA or above by a CIRC-recognised credit rating agency. Since 2003, the CIRC further broadened the investment channels of PRC insurance companies to permit investment in government bonds, financial bonds (including central bank notes, policy bank financial bonds and subordinated bonds, commercial bank financial bonds and subordinated bonds, commercial bank subordinated term debts, insurance company subordinated term debts and RMB-denominated bonds issued by international development agencies), enterprise (corporate) bonds, convertible bonds, short-term financing bonds and other bonds as approved by relevant government agencies as well as RMB-denominated common shares listed on a PRC stock exchange, subject to various limitations.

In March 2006, the CIRC began to permit insurance companies to invest indirectly in infrastructure projects. In October 2006, the CIRC issued a circular to allow insurance institutions to invest in equities of unlisted commercial banks up to 3% of the insurers' total assets. In July 2007, the CIRC, the PBOC and the SAFE jointly published measures to allow offshore investments by insurance institutions through insurance asset management companies or other professional investment institutions. In March 2009, the Standing Committee of the National People's Congress approved the amended PRC Insurance Law, which for the first time permits PRC insurance companies to invest in real estate. In 2009, the CIRC issued a notice to allow qualified PRC insurance companies to invest in unguaranteed bonds. In the same year, the CIRC issued another notice, giving PRC insurance companies more flexibility in their participation in infrastructure debt investment plans.

On 30 July 2010, the CIRC issued the Notice of China Insurance Regulatory Commission on Adjusting the Investment Policies for Insurance Funds and on 31 August 2010, it issued the Interim Measures for the Administration of Utilisation of Insurance Funds to further broaden the investment channels available for insurance funds. For example, the CIRC raised the proportion of investment funds available for investment in stocks and equity funds to 20% of an insurance company's total assets, and allowed insurance companies to invest insurance funds in new investment areas such as unsecured corporate bonds, infrastructure debt investment plans, unlisted equity securities, real estate investments and overseas investments. In October 2012, the CIRC further encouraged insurance companies to diversify their investment options by releasing six regulations regarding insurance companies' investment in infrastructure debt investment plans, financial products, derivative products, index and future products and overseas investments. The further expansion of the scope of permitted investments for PRC insurance companies has created a need for greater investment capabilities and risk management capabilities within insurance companies.

Evolving supervision and regulation of the PRC insurance industry

The insurance industry is heavily regulated in the PRC. Established in 1998, the CIRC initially focused on regulating market behavior and curbing abusive practices by insurance providers. The CIRC has since promulgated a number of rules and regulations that regulate the market behavior of life insurance companies and property and casualty insurance companies as well as insurance intermediaries in the PRC to prevent and address risks that may arise from insurance market operations. For instance, in 2008, the CIRC took measures to curb illegal or otherwise noncompliant activities of property and casualty insurance companies, which helped create a business environment in the PRC insurance industry that encourages fair and orderly competition and compliance with laws and regulations. Beginning in 2003, the CIRC strengthened its regulation of solvency margin in order to provide better protection to policyholders. In 2008, the CIRC further revised the tests for financial soundness of insurance companies and adopted new rules that would allow it to take a variety of regulatory measures against insurance companies whose solvency margin ratio raises regulatory concerns. Since 2006, the CIRC has also focused on the soundness of insurance companies' corporate governance, risk management and internal controls as well as compliance.

In 2009, the PRC Insurance Law was amended in response to significant developments in the PRC insurance industry since the law's prior amendment in 2002. This amendment is very extensive and brought a number of important changes to the legal and regulatory landscape of insurance and reinsurance business in China, including: 1) supervisory enhancement for solvency, internal control, corporate governance, and management; 2) stronger policyholder protection regarding incontestable period and voidable standard clauses; 3) abolition of priority cessions to domestic incorporated reinsurers; and 4) further liberalisation of insurance investment channels. The amended PRC Insurance Law lifted the limitations on insurance companies' organisational forms and broadened their business scope and investment channels. At the same time, the amended PRC Insurance Law has added new regulatory requirements on related party transactions of insurance companies and imposed restrictions on activities of insurance companies that fail to meet solvency requirements, among other things. The improving regulation will likely help promote the healthy and sustainable development of the PRC insurance industry.

The CIRC is in the process of implementing a risk-based supervisory system for insurance companies. Under the risk-based supervisory system, insurance companies will be evaluated and grouped into different categories based on a set of criteria, including, among other things, corporate governance, internal controls and operational risks. Insurance companies with less favorable evaluation results will be subject to more stringent supervision by the CIRC, whereas those with favorable evaluation results are expected to receive regulatory support from the CIRC, such as accommodations in new product approvals, establishment of new branches and deployment of insurance funds, among other things. A modern insurance regulatory system focusing on solvency margin, corporate governance and market behavior is evolving in the PRC.

Hong Kong general insurance

Overview

Insurance is a vital pillar of Hong Kong's financial service industry and a major economic sector employing over 80,000 people. In 2012, total gross premiums of the Hong Kong insurance industry increased by 13.4% from last year to 32.7 billion, representing about 12.4% of Hong Kong's GDP, compared with 12.3% in 2011 according to Sigma Report No. 3/2013. The Hong Kong general insurance market is the 21st largest in the world in terms of total premiums written, based on Sigma Report No. 3/2013. According to data published by the OCI, in 2012, total gross premiums written from the general insurance business increased 13.3% to HK$34.7 billion when compared with 2011. In the first half of 2013, total gross premiums written from general insurance business recorded a growth of 12.5% to HK$22.8 billion compared with the corresponding period in 2012.

According to data published by the OCI, as at 30 June 2013, there were 154 authorised insurers in Hong Kong, of which 91 were pure general insurers, 44 were pure long-term insurers and the remaining 19 were composite insurers. Of these 91 general insurers, 57 were companies incorporated in Hong Kong while the rest come from 21 different countries/regions. The Hong Kong insurance market is a highly sophisticated and internationalised one.

For general business, accident and health (26.5%), property damage (21.3%), general liability (24.3%) and motor vehicle (10.7%) are the major lines of business in terms of gross premiums written for 2012.

Current condition of Hong Kong insurance industry

Industry development and international comparison

The Hong Kong insurance market is a relatively mature market, although the growth rates in both 2012 and the first half of 2013 are notable. Gross premiums written from general insurance business grew 12.6% in 2012, compared to 5.3% in Asia, -5.6% in Europe and 3.8% in North America (in each case as classified in Sigma Report No. 3/2013) over the same period.

The following table sets forth the insurance premiums received by general insurance companies for direct business in Hong Kong and related annual growth rates from 2001 to 2012:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	(in billions of HK$, except growth rates)											
General insurance (direct)	15,402	18,269	18,496	18,158	17,536	18,170	19,347	21,303	22,954	23,929	25,752	28,995
Annual growth rate....	–	18.6%	1.2%	-1.8%	-3.4%	3.6%	6.5%	10.1%	7.8%	4.2%	7.6%	12.6%

Source: OCI

Despite being a developed market, the Hong Kong general insurance market has a relatively low penetration rate. In 2012, total general insurance premiums as a percentage of GDP was approximately 12.4%, compared to 11.4% in Japan and 8.2% in the United States (in each case as classified in Sigma Report No. 3/2013). The Hong Kong general insurance market has a relatively high insurance density, measured by total general insurance premiums per capita. In 2012, the Hong Kong general insurance density rate was US$4,544, compared to US$5,168 in Japan and US$4,047 in the United States (in each case as classified in Sigma Report No. 3/2013).

General condition of assets maintained in Hong Kong

The Hong Kong government is pressing for the establishment of a policyholders' protection fund with an initial target size of around US$168 million in fiscal year 2013-2014 to act as a safety net for policyholders when an insurer becomes insolvent.

Market participants

Based on data published by the OCI, the general insurance market in Hong Kong is relatively fragmented. The top ten general insurers only held, in aggregate, approximately 40.8% of the market share, in terms of gross premiums written, in general insurance in 2012.

The following table sets forth the market shares in terms of gross premiums written (excluding premiums assumed from other insurers), based on data published by the OCI, held by the top general insurers in Hong Kong in 2011 and 2012:

2011

Rank	Company	Market share
1	HSBC Insurance	6.2%
2	Zurich Insurance	6.0%
3	Chartis Insurance Insurance	4.9%
4	BOC Group Insurance	4.6%
5	Bupa	4.4%
6	CNOOC Insurance	3.8%
7	Lloyd's	3.1%
8	Asia Insurance	3.1%
9	MSIG Insurance	2.8%
10	CTPI (HK)	2.7%
11	Others	58.4%

2012

Rank	Company	Market share
1	Zurich Insurance	5.8%
2	HSBC Insurance	5.4%
3	Chartis Insurance	4.6%
4	Bupa	4.6%
5	BOC Group Insurance	4.2%
6	CTPI (HK)	3.7%
7	CNOOC Insurance	3.4%
8	Asia Insurance	3.3%
9	QBE HKSI	3.0%
10	AXA General	2.8%
11	Others	59.2%

Source: OCI

Regulation

Established in 1997 as an office within the Hong Kong Government, the OCI administers the legislation governing the operation of insurance and reinsurance companies and insurance intermediaries in Hong Kong.

The Insurance Authority ("IA"), which was established under the ICO, exercises prudential supervision of the insurance and reinsurance industry with a view to promoting general stability of the insurance and reinsurance industry and protecting the interests of policyholders. The IA has statutory powers under the ICO for prudential regulation of insurers, including in relation to capital adequacy, solvency margin, handling of assets and liabilities, proper keeping of financial information and fitness and properness of directors and controllers. The IA is also empowered to intervene to protect policyholders, such as imposing restrictions on the types of investments that may be held and requirements for maintaining assets in Hong Kong.

In July 2010, the Hong Kong Government published a public consultation paper to solicit views on its proposals to establish a statutory Independent Insurance Authority ("IIA"). The Government then released a paper in June 2011 setting out consultation feedback and a detailed process for establishing the IIA in 2013-2014. The proposed IIA is expected to bring the insurance regulator in line with other financial services regulators in Hong Kong and internationally. The proposed IIA will retain the existing powers of the IA and, in addition, will have enhanced powers in relation to the regulation of insurers. These enhanced powers include express powers to initiate investigations, search and seize materials upon warrant, prosecute offences summarily, and impose a range of regulatory sanctions in relation to misconduct committed by insurers. These sanctions would include imposing fines, suspending/revoking a license, and prohibiting an insurer from applying to be licensed.

The Reinsurance Industry

The reinsurance industry is a global industry whereby direct insurers are able to enter into reinsurance transactions with reinsurers around the world to mitigate their risks without geographical restriction. Since reinsurance is purchased by ceding insurance and reinsurance companies to cover their risk exposure in respect of potential liabilities, the demand for reinsurance is dependent on the amount of primary risks written by direct insurers, as well as on a number of other factors, including the risk retention decisions of primary insurers and the availability of alternative sources of risk transfer such as capital markets instruments. The demand for primary insurance in the major markets of the Group therefore has an impact on the Group's reinsurance business.

Global reinsurance market

Non-life reinsurance

According to Swiss Re's 2012 annual report, global non-life reinsurance premiums in 2012 amounted to approximately US$180 billion, 25% of which were attributable to ceding companies in emerging markets. In general, reinsurance demand is driven by the size and capital resources of primary insurance companies and the risk profile of the insurance products they sell.

Aside from the global financial crisis and its consequences, natural catastrophes have had the most significant impact on earnings for the reinsurance sector. In the first three quarters of 2012, the global reinsurance industry enjoyed a good, though not strong, performance. The fourth quarter, however, was marked by extensive claims following Hurricane Sandy. The combined ratio was below 95% for the reinsurance industry in 2012, better from 2011 with 110%, but similar to the 96% combined ratio in 2010.

Despite these challenges, underwriting profitability in reinsurance markets held up better than in many primary insurance markets. Releases from loss reserves in prior years are currently helping to improve underwriting results.

Like primary insurers, reinsurers faced challenges from the Eurozone debt crisis, as well as low interest rates and weak equity markets. Their investment income declined in 2012 as did their overall profitability: most expect a return on equity of above 10% in 2012 compared to 4% in 2011. Although reinsurers' capital base remains strong, capital requirements have increased due to increases in risk charges associated with reserves, greater exposures to natural catastrophes, and riskier assets.

Life reinsurance

The top eight life reinsurers increased their net premiums by about 10% in the first half of 2012 (in USD). This strong growth was partly driven by consolidation. Additionally, block transactions, longevity risk reinsurance, enhanced annuities, and the accident & health business supported reinsurance growth and helped reinsurers diversify away from the traditional mortality business in the US and the UK.

Premiums from traditional life reinsurance, consisting of mortality and morbidity, decreased by 1.6% globally in 2012. In advanced markets, premiums fell 2.1%, while in emerging markets they increased by almost 5% on the back of strong protection sales. The decline in advanced markets was driven by an ongoing contraction in the US and UK markets, which currently account for 55% of global cessions (while during the last decade these two markets had a share of 65% of the global free cession market). Reinsurance premiums in the US and UK fell by almost 4.5% in 2012, mainly due to declining cession rates as a result of receding regulatory arbitrage opportunities and regulatory changes.

Asian reinsurance market

2011 was a year of historic catastrophe losses for the global property and casualty sector, with total losses exceeding US$100 billion. The largest catastrophes of the year – the Tohoku earthquake, the New Zealand earthquake and floods in Thailand and Australia – all occurred in the Asia-Pacific region. These events had a significant impact on both primary insurers in the region and on global reinsurers. In 2012, in general, property and casualty reinsurers tightened underwriting guidelines and strengthened risk management following 2011's natural disasters across the Asia-Pacific region. In some countries, such as South Korea, India, Australia and New Zealand, reinsurers sought to increase rates and limit contingent business interruption coverage for programs renewing in 2012, also largely in response to the floods in 2011.

The growth momentum of Asian reinsurance markets is expected to continue to be strong, with increasing risk awareness and continued market demand by the cedants, according to Fitch. For example, China's non-life market was reported to have grown by 19.4% in 2012. There is also a stronger emphasis on the credit quality of the reinsurers, given the "flight to quality" phenomenon of the direct cedants. In addition, after a relatively calm 2012 during which no major loss events occurred outside of the United States, reinsurance pricing has shown signs of weakening in many Asian markets during the 2013 renewals.

Hong Kong – Hong Kong is one of the key regional reinsurance centres. According to OCI, as at 6 September 2013, there were 19 pure reinsurers authorised to actively carry on inward reinsurance business in Hong Kong. In the first half of 2013, gross premiums and net premiums written in relation to reinsurance in Hong Kong aggregated to approximately HK$5.5 billion and HK$3.2 billion, respectively, according to data published by the OCI.

China – The growth potential for China's reinsurance business is favourable. China Property and Casualty Reinsurance Company Limited and China Life Reinsurance Company Limited under the state-owned China Reinsurance and TPRe are the only three local franchises of professional reinsurers in the Chinese market, whereas local branch offices of international reinsurers include Munich Reinsurance, Swiss Reinsurance, Gen Reinsurance, Lloyd's, SCOR Reinsurance and Hannover Reinsurance. With the strict solvency margin requirements imposed by the CIRC on insurance companies, there is increasing demand for reinsurance by insurance companies to bolster their solvency margin. Life insurers have to quantify their risks using economic capital beginning in about 2014. If capital requirements increase, it could increase demand for reinsurance.

Overseas non-life insurance market

Singapore – The Singaporean non-life insurance segment generates a larger proportion of its business from overseas markets than the life and personal accident and health insurance segments. Consequently, macro-and micro economic conditions in neighboring countries have a significant impact on the growth of the Singaporean non-life insurance segment, with overall economic growth in the region following the global financial crisis in 2009 resulting in increased demand for property, motor and liability insurance products. This improvement in offshore business, coupled with Singapore's strong economic growth in 2010 and 2011, accelerated the growth of the non-life insurance segment during the past few years.

According to the General Insurance Association of Singapore, Singapore's domestic non-life sector posted a 16% increase in underwriting profit to US$231 million in 2012, driven mainly by motor's robust profit of $50.36 million which was up by 135.12%.

Macau – The Macau insurance industry grew during the past several years. The growth of the insurance industry is being driven by expanding casino-related infrastructure development projects and a favorable regulatory framework, including a wide range of compulsory insurance categories such as motor third-party liability and various professional liability insurance categories.

According to the data from the Monetary Authority of Macau, the city's insurance sector registered premiums of US$674 million in 2012, up by 23.8% from 2011. Gross premiums have more than doubled since 2006, and in 2012 they hit their highest figures since the financial regulator began releasing data in 2001. Non-life premiums increased by 35.9% to US$132 million in 2012.

Indonesia – Against a fragmented and competitive landscape, Indonesia's non-life insurance industry has performed relatively well in recent years. This performance was supported by stable growth of 5% to 6% in gross domestic product over the past five years; a large, young population; increasing spending on personal property; and expanding government outlays. These fundamentals underpin demand for personal lines insurance such as motor, household property, medical and personal accident.

As of July 2012 there were 86 non-life insurance companies in Indonesia. The largest non-life lines were motor, property and personal accident & health. These accounted for 30.1%, 27.4% and 13.5% of total non-life premiums in the first half of 2012, respectively. Motor policies are often multi-year in duration, relating to the feature that many policies are sold at the point of financing of car purchases. The top 10 and 20 players in the non-life industry command a market share of 57% and 74%, respectively.

According to the Indonesia General Insurance Association, non-life insurers in Indonesia saw their premiums rise by 15% to US$1.1 billion for the first quarter of 2013, as consumers snapped up more products. The insurers registered US$1.1 billion in premium payments for the quarter, compared to US$0.96 billion for the corresponding period a year earlier.

DESCRIPTION OF THE ISSUER

Formation

The Issuer, China Taiping New Horizon Limited, is a limited liability company incorporated in the British Virgin Islands on 16 September 2013. Its registered office is located at 171 Main Street, Road Town, Tortola VG1 110, British Virgin Islands. The Issuer is a direct wholly-owned subsidiary of the Company.

Business Activity

Subject to the BVI Business Companies Act 2004 (as amended) and any other British Virgin Islands legislation, the Issuer has, irrespective of corporate benefit, full capacity to carry on or undertake any business or activity, do any act or enter into any transaction. The net proceeds of the Offering will be used by the Company's principal subsidiaries for general corporate purposes.

Directors

The sole director of the Issuer is the Company.

Share Capital

As at the date of this Offering Circular, the Issuer was authorised to issue 50,000 no par value shares. As at the date of this Offering Circular, no part of the equity securities of the Issuer was listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Financial Information

As at the date of this Offering Circular, save for the issue of the Notes and other activities reasonably incidental thereto, the Issuer had no business or assets and therefore, it has not prepared any financial information since its incorporation.

DESCRIPTION OF THE GROUP

Overview

The Company is a private insurance conglomerate incorporated and headquartered in Hong Kong. With its comprehensive business platform, the Company delivers one-stop integrated financial and insurance services to its customers. Through its subsidiaries, the Company principally engages in the life insurance business, the property and casualty insurance business, and the reinsurance business, as well as other businesses comprising primarily the asset management business, the pension and group life insurance business, the insurance intermediary business, E-commerce for insurance and the property investment business. The Company is 100% owned by TPG, one of the longest standing national enterprises in the PRC insurance industry.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the Group had gross premiums written of HK$49,632.8 million, HK$51,106.1 million, HK$61,163.2 million and HK$51,165.3 million, respectively, and it generated profit after taxation of HK$3,232.7 million, HK$2,007.7 million, HK$1,877.5 million and HK$826.2 million for the same periods, respectively. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total assets of the Group amounted to HK$165,817.1 million, HK$205,199.0 million, HK$257,859.1 million and HK$292,336.9 million, respectively.

CTIH, the Company's most significant subsidiary, is publicly listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: HK 00966) and was the first Chinese insurance enterprise to be publicly listed. CTIH has obtained an issuer default rating of "BBB+" from Fitch and a long-term issuer credit rating of "BBB+" from Standard & Poor's. The Company currently owns a 53.27% equity interest in CTIH. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, CTIH had gross premiums written of HK$48,574.8 million, HK$49,889.7 million, HK$59,915.3 million and HK$50,506.8 million, respectively, and it generated profit after taxation of HK$2,653.5 million, HK$972.2 million, HK$1,473.7 million and HK$739.1 million for the same periods, respectively. As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total assets of CTIH amounted to HK$154,483.7 million, HK$191,360.6 million, HK$242,938.5 million and HK$274,996.8 million, respectively. The embedded value of CTIH as at 31 December 2012 and 30 June 2013 was HK$37,656 million and HK$49,191 million, respectively.

The Group's operations mainly comprise the following businesses:

Life insurance

The life insurance business is the strategic pillar that supports the ongoing development of the Group and is a major contributor to the Group's assets and net profit. The Group's life insurance business is operated by TPL, which is PRC-incorporated and is currently 50.05% owned by CTIH, 25.05% owned by TPG and 24.9% owned by Ageas. TPL is principally engaged in the underwriting of life insurance policies in Mainland China. TPL's products are distributed through individual agents, bancassurance and direct sales (primarily telemarketing). Based on premium data published by the CIRC, TPL had a market share of 5.2% in the PRC life insurance market for the six months ended 30 June 2013, operating through 34 provincial branches and 882 sub-branches and marketing centres in major cities in Mainland China and ranking as the seventh largest life insurer in the PRC as at 30 June 2013. TPL has obtained an issuer financial strength rating of "A-" from Fitch.

In 2012 and the first six months of 2013, TPL had gross premiums written of HK$44,807.5 million and HK$40,254.6 million, respectively, and generated profit after taxation of HK$861.8 million and HK$289.8 million, respectively. The embedded value of TPL as at 31 December 2012 and 30 June 2013 was HK$29,286 million and HK$41,938 million, respectively.

Property and casualty insurance

The Group offers property and casualty insurance in the PRC, Hong Kong and other overseas regions including Macau, Singapore and the United Kingdom.

PRC Property and Casualty Insurance – The Group's property and casualty insurance business in the PRC is operated by TPI, which is currently 61.21% owned by CTIH and 38.79% owned by TPG. TPI is mainly engaged in underwriting motor, marine and non-marine policies in Mainland China. Based on premium data published by the CIRC, TPI had a market share of 1.6% in the PRC property and casualty insurance market for the six months ended 30 June 2013, operating through 28 provincial branches and 392 sub-branches and marketing centres in major cities in Mainland China and ranking as the eighth largest general insurer in the PRC as at 30 June 2013.

In 2012 and the first six months of 2013, TPI had gross premiums written of HK$9,547.8 million and HK$6,513.3 million, respectively, and generated profit after taxation of HK$239.5 million and HK$209.3 million, respectively.

Hong Kong Property and Casualty Insurance – The Group's property and casualty insurance business in Hong Kong is operated by CTPI (HK), which is wholly-owned by CTIH and was incorporated in Hong Kong in 1949. CTPI (HK) is mainly engaged in the underwriting of motor, marine and non-marine policies in Hong Kong. Based on premium data published by the OCI, CTPI (HK) had a market share of 3.7% in the Hong Kong property and casualty insurance market in 2012, and was ranked sixth in the Hong Kong general insurance market as at 31 December 2012. CTPI (HK) has obtained both an insurer financial strength rating and a counterparty credit rating of "A" from Standard & Poor's, and a financial strength rating of "A" from A.M. Best.

In 2012 and the first six months of 2013, CTPI (HK) had gross premiums written of HK$1,041.5 million and HK$694.7 million, respectively, and generated profit after taxation of HK$531.7 million and HK$179.3 million, respectively.

Overseas Property and Casualty Insurance – The Group also operates property and casualty insurance business in Macau, Singapore and the United Kingdom through wholly-owned subsidiaries TP Macau, TP Singapore and TP UK. TP Macau is the market leader in the Macau general insurance industry with the highest market share, 27.2%, in terms of premium income in 2012, based on premium data published by Autoridade Monetária De Macau.

Reinsurance

The Group's reinsurance business is operated by TPRe, which is wholly-owned by CTIH and was incorporated in Hong Kong in 1980. TPRe is mainly engaged in the underwriting of all classes of non-life reinsurance business around the world, consisting mainly of short-tail property reinsurance business in the Asia Pacific region. TPRe also engages in the underwriting of certain classes of long-term (life) reinsurance business. TPRe has chosen not to engage in long-tail liability reinsurance business from outside of Asia, such as from the United States and Europe. TPRe is one of the largest reinsurers in Hong Kong with a market share of 18.6% in 2012 based on premium data published by the OCI. TPRe has obtained an issuer financial strength rating of "A" from Fitch, a financial strength rating of "A-" from A.M. Best and both a financial strength rating and a counterparty credit rating of "A" from Standard & Poor's.

In 2012 and the first six months of 2013, TPRe had gross premiums written of HK$3,435.3 million and HK$2,217.0 million, respectively, and generated profit after taxation of HK$112.1 million and HK$195.1 million, respectively.

Other businesses

The Group's other businesses consist primarily of the pension and group life insurance business, the asset management business, the insurance intermediary business, E-commerce for insurance and the property investment business.

Pension and Group Life Insurance – The Group's pension management business is operated by TPP. TPP is a PRC-incorporated company and is currently 96% owned by CTIH and 4% owned by TPG. TPP is principally engaged in corporate and personal retirement insurance and annuity businesses, and the group life insurance business in Mainland China. In 2012 and the first six months of 2013, TPP had gross premiums written of HK$1,136.4 million and HK$879.0 million, respectively. TPP had a loss after taxation of HK$128.6 million in 2012 and a profit after taxation of HK$2.3 million in the first six months of 2013.

Asset Management – The Group's asset management business is operated by TPAM and TPA (HK). TPAM and TPA (HK) are mainly engaged in the provision of investment consultancy services to the group companies in managing their RMB and non-RMB investment portfolios, respectively. TPAM is a PRC-incorporated company and is currently 60% owned by CTIH, 20% owned by TPG and 20% owned by Ageas, while TPA (HK) is a Hong Kong-incorporated company and is wholly-owned by CTIH. As at 30 June 2013, TPAM and TPA (HK) had HK$220,090 million and HK$11,623 million assets under management, respectively. In 2012 and the first six months of 2013, the Group's asset management business generated a profit after taxation of HK$31.7 million and HK$10.5 million, respectively.

Insurance Intermediary – The Group's insurance intermediary business is operated by TPRB and TP Japan. TPRB is wholly-owned by CTIH and is incorporated in Hong Kong. TPRB is mainly engaged in broking services for reinsurance and insurance companies. TPRB's key markets are Hong Kong, Macau, Singapore and the PRC. TP Japan is a limited company incorporated in Japan in 1991. The principal activities of TP Japan are the provision of insurance agency services in the Japanese market. In addition, TP Japan also maintains long-term business relationships with major insurance enterprises in Japan for the benefit of TPG. TP Japan also produces rental income from its properties.

E-commerce for Insurance – The Group's E-commerce for insurance is operated by TPeC, which was established in July 2012 to build a uniform e-commerce platform within the entire Group. TPeC is 80% owned by CTIH and 20% owned by Ageas.

Property Investment Business – The group companies involved in property investment include TPIH, Dragon Jade and Ming Lee, which derive the majority of their respective book value from various offices and car parking properties spanning tier-1 cities in the PRC as well as Hong Kong and Macau, most of which are for rent (the rest are for self-use), providing a constant and stable cash flow stream to the Group. The largest holdings include STFT, which is located in the heart of the Lujiazui Finance and Trade Zone in Shanghai, the PRC.

Restructuring

On 27 May 2013, CTIH as purchaser entered into a framework agreement with TPG and the Company as vendors, pursuant to which CTIH has conditionally agreed to acquire (i) additional equity interests in certain non-wholly-owned subsidiaries of CTIH, including a 25.05% equity interest in TPL, a 38.79% equity interest in TPI, a 20% equity interest in TPAM and a 4% equity interest in TPP; (ii) equity interests in overseas property and casualty insurance companies, namely 100% equity interests in each of TP Macau, TP Singapore and TP UK owned by the Company, and a 55% equity interest in TP Indonesia owned by TPG; and (iii) equity interests in certain property holding companies and other companies owned by TPG and the Company and certain liabilities relating to the companies being acquired, for an aggregate consideration of RMB10,581,367,500 (equivalent to HK$13,277,495,800 using an exchange rate RMB1.00 = HK$1.25480 as agreed by the relevant parties), which will be settled by the issuance of consideration shares by CTIH at the issue price of HK$15.39 per share (the "**Restructuring**"). The Restructuring covers equity interests in 25 target companies in total. Upon completion, the Restructuring will significantly strengthen CTIH's capital base with the total number of outstanding shares in CTIH increasing by 50.6% from 1,705,875,092 to 2,568,610,362, and increase the shareholding of TPG and the Company in CTIH from 53.27% to 68.96%.

Completion of the Restructuring is conditional upon the fulfilment of the following conditions:

(i) the framework agreement, the transactions contemplated thereunder and the allotment and issue of not more than 862,735,270 consideration shares having been approved by the independent shareholders of CTIH in accordance with the requirements of the Hong Kong Listing Rules;

(ii) the approval for the listing of and permission to deal in the consideration shares having been granted by the Listing Committee of the Stock Exchange; and

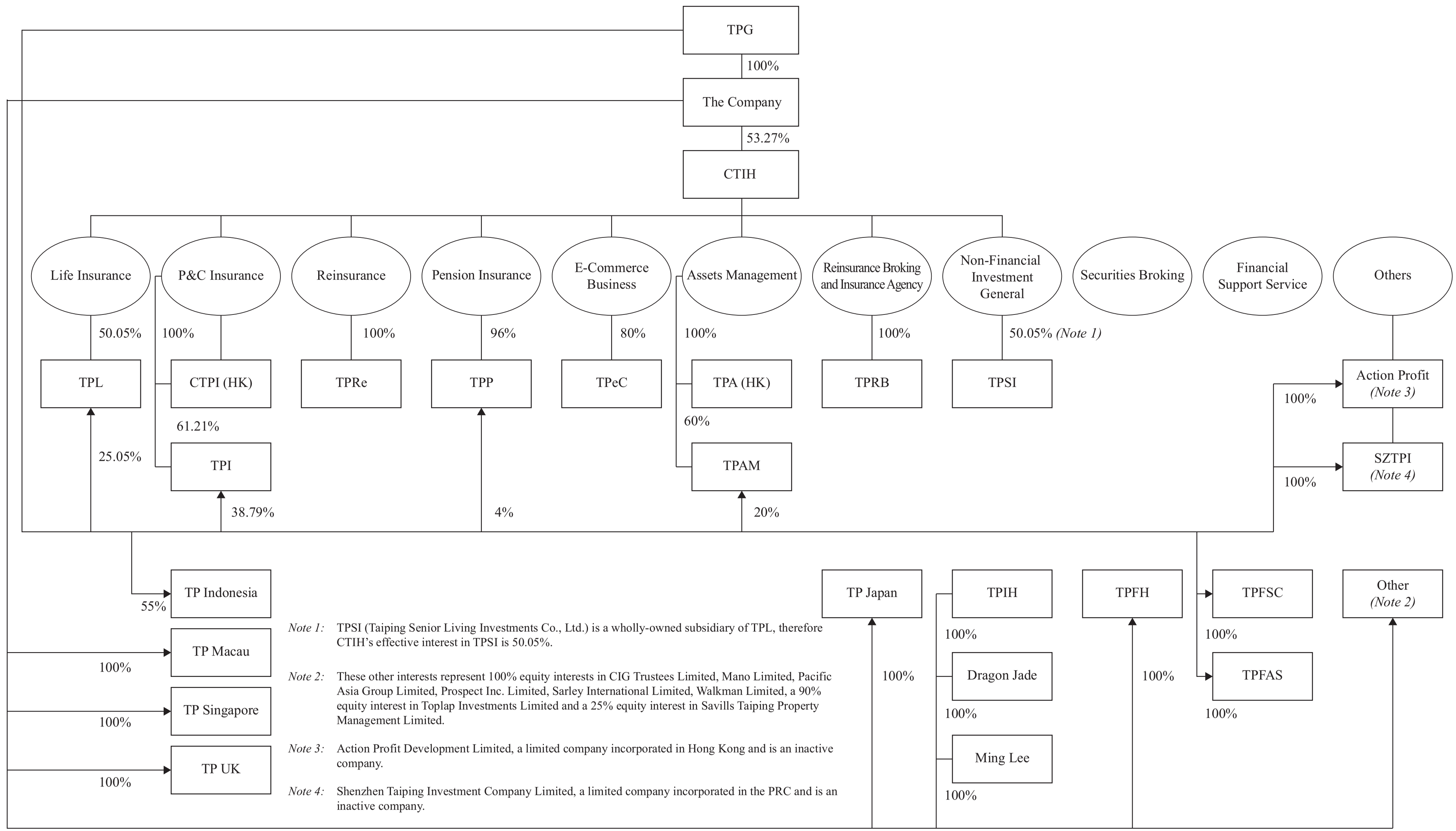
(iii) where applicable, the framework agreement and the transactions contemplated thereunder having been approved by relevant departments and commissions of the PRC government, including the MOF, the CIRC, the MOFCOM and the CSRC;

and, where applicable, conditions precedent set out in the specific agreements to be entered by TPG, the Company and CTIH relating to the Restructuring.

As at the date of this Offering Circular, conditions (i) and (ii) had been fulfilled, and a joint approval in principle from CIRC and MOF was obtained in April 2013. Subject to the fulfilment of all conditions precedent to the framework agreement and the relevant specific agreements, the completion of the Restructuring is expected to take place on or before 30 June 2014. For more detailed information on the Restructuring, please refer to the May 2013 Circular, see the section entitled "*Information Incorporated by Reference*" in this Offering Circular.

Set out below are two group charts illustrating the simplified shareholding structure of TPG, the Company and CTIH as at 30 June 2013 and immediately after completion of the Restructuring:

As at 30 June 2013



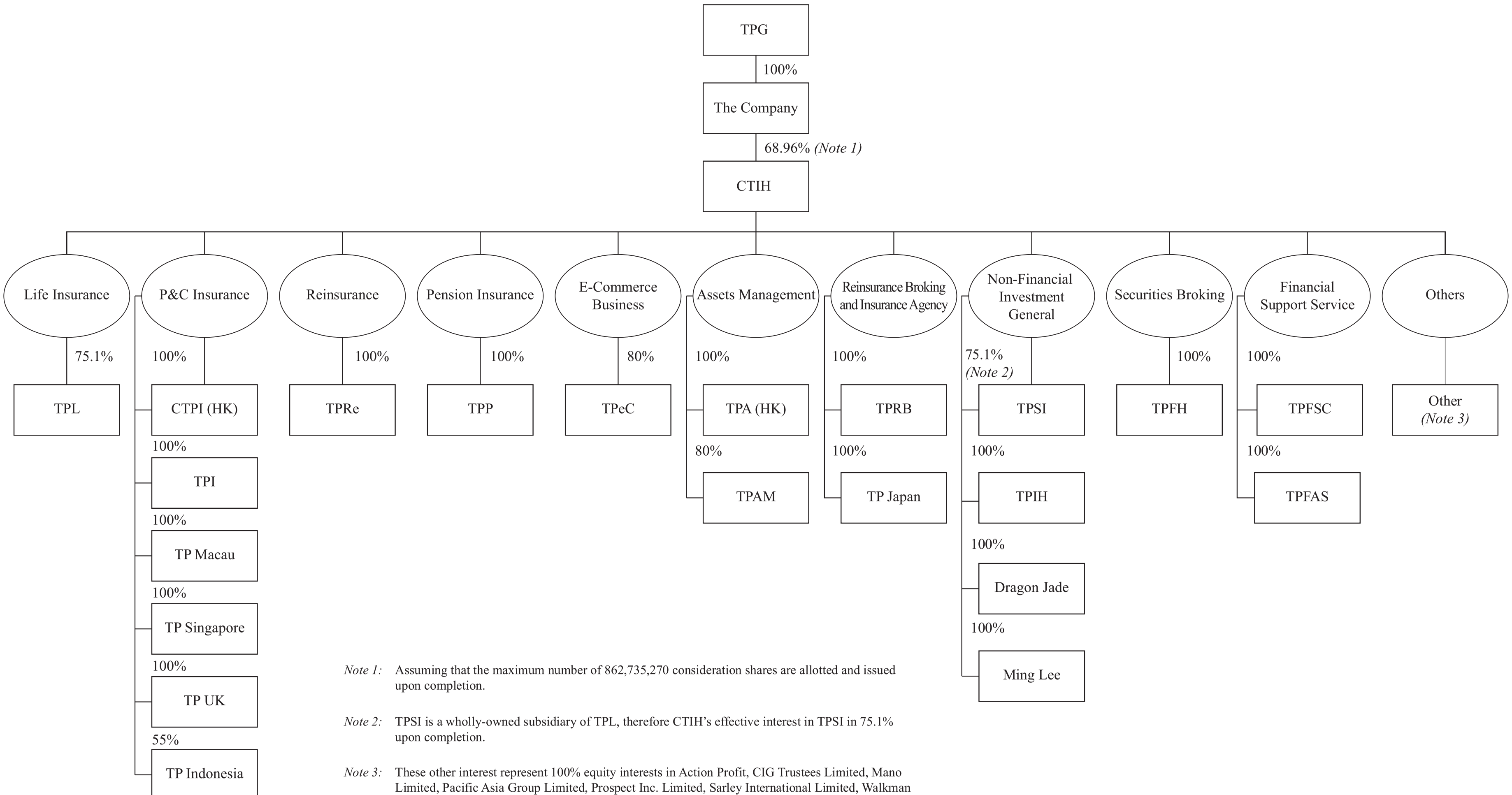
Note 1: TPSI (Taiping Senior Living Investments Co., Ltd.) is a wholly-owned subsidiary of TPL, therefore CTIH's effective interest in TPSI is 50.05%.

Note 2: These other interests represent 100% equity interests in CIG Trustees Limited, Mano Limited, Pacific Asia Group Limited, Prospect Inc. Limited, Sarley International Limited, Walkman Limited, a 90% equity interest in Toplap Investments Limited and a 25% equity interest in Savills Taiping Property Management Limited.

Note 3: Action Profit Development Limited, a limited company incorporated in Hong Kong and is an inactive company.

Note 4: Shenzhen Taiping Investment Company Limited, a limited company incorporated in the PRC and is an inactive company.

Immediately after the Completion



Note 1: Assuming that the maximum number of 862,735,270 consideration shares are allotted and issued upon completion.

Note 2: TPSI is a wholly-owned subsidiary of TPL, therefore CTIH's effective interest in TPSI in 75.1% upon completion.

Note 3: These other interest represent 100% equity interests in Action Profit, CIG Trustees Limited, Mano Limited, Pacific Asia Group Limited, Prospect Inc. Limited, Sarley International Limited, Walkman Limited, SZTPI, a 100% equity interest in Toplap Investments Limited (of which 90% will be directly by CTIH and the remaining 10% through TPIH) and a 25% equity in Savills Taiping Property Management Limited.

Milestones in History and Development

The following are some of the milestones and significant events in the Group's corporate history and development since 1929.

Year	Event
1929	• Taiping Fire and Marine Insurance Company was founded in Shanghai, establishing the "Taiping" brand
1931	• TPG (initially known as China Insurance Company Limited ("**CIC**"), the largest shareholder and parent company of CTIH) was founded in Shanghai
1933	• Taiping Fire and Marine Insurance Company was renamed "TPI"
1938	• TPL was founded
1949	• CTPI (HK) (initially known as The Ming An Insurance Company (Hong Kong) Limited) was founded in Hong Kong
1956	• CIC, TPL and TPI were nationalised and made subsidiaries of The People's Insurance Company of China ("**PICC**")
1980	• TPRe (initially known as China Reinsurance Company (Hong Kong), Limited) was founded in Hong Kong
1992	• The Company (formerly known as China Insurance H.K. (Holdings) Company Limited) was founded in Hong Kong and became the holding company for all of PICC's operations in Hong Kong and Macau
1996	• TPRB (initially known as SINO-RE Reinsurance Brokers Limited) was founded in Hong Kong
	• TPA (HK) (initially known as China Life Investment Management Limited) was founded in Hong Kong
1999	• PRC State Council disbanded the monopoly of PICC and organised PICC's overseas operating assets under TPG
2000	• CTIH (formerly known as China Insurance International Holdings Company Limited) was founded and listed on the Stock Exchange, the first PRC-related insurance company to become publicly-listed
2001	• CTIH Shanghai office opened and began assisting with customer liaisons and market contacts
	• TPG reactivated nationwide life and property/casualty insurance licences for TPL and TPI, respectively
	• CTIH completed acquisitions of 50.05% of TPL and 30.05% of TPI
	• CTIH issued 371 million new shares with net proceeds of HK$1,159 million
2002	• CTIH issued 51.62 million new shares with net proceeds of HK$201 million
	• CTIH acquired a 100% equity interest in TPA (HK)
2003	• CTIH issued US$175 million 10-year Guaranteed Notes yielding 5.8%
2004	• CTIH equity interest in TPI increased from 30.05% to 40.025%
	• TPP was founded; CTIH's effective interest in TPP was 50.03%
2005	• TPAM was founded; CTIH's effective interest in TPAM was 42.03%
2006	• Both TPL and TPI achieved operating profits for the first time
	• CTIH issued 63.75 million new shares with net proceeds of HK$515 million
2008	• CTIH's equity interest in TPI increased from 40.025% to 50.05% and TPI became the consolidated subsidiary of CTIH

Year	Event
2009	• CTIH completed acquisition of 51.34% of The Ming An (Holdings) Company Limited ("**MAH**") from the Company. MAH (including CTPI (HK) and The Ming An Insurance Company (China) Limited ("**MAC**")) became consolidated subsidiaries of CTIH • CTIH changed its name from "China Insurance International Holdings Company Limited" to "China Taiping Insurance Holdings Company Limited" • CTIH completed the acquisition and privatisation of MAH, MAH (including CTPI (HK) and MAC) became a wholly-owned subsidiary of CTIH
2010	• CTIH obtained the approval from the CIRC in relation to the disposal of 100% equity interest in MAC
2011	• CTIH's equity interest in TPI increased from 50.05% to 51.77% • CTIH's equity interest in TPI increased to 61.21% • CTIH's equity interest in TPP increased to 96% • CTIH's equity interest in TPAM increased to 60%
2012	• CTIH founded a wholly-owned E-Commerce subsidiary • CTIH issued US$300 million 10-year Guaranteed Notes yielding 4.125%
2013	• TPG, the Company and CTIH entered into a framework agreement in connection with the Restructuring, see "– *Restructuring*" above

Competitive Strengths

Long-established Chinese insurance brand well positioned to play an increasingly important role in the steady development of the PRC's insurance market

The Taiping group has existed in China for over 80 years and is widely recognised as a prestigious brand with a rich history and affluent associations. The Group's "Taiping" brand can be traced back to Taiping Fire and Marine Insurance Company founded in 1929. CTIH was the first Chinese insurance enterprise to obtain a public listing when it was listed on the Stock Exchange in 2000. In 2003, CTIH was also the first PRC-related insurance company to access the international debt markets, raising US$175 million in 10-year senior notes. In 2012, CTIH accessed the international fixed income markets again, raising US$300 million in 10-year senior notes. CTIH was recognised as one of the Fortune 500 Chinese Companies for six consecutive years and ranked 101th in 2013. For six consecutive years, from 2008 to 2013, TPL was ranked among the "Top 500 Chinese Enterprises" and "Top 500 Chinese Service Enterprises" by the China Enterprise Confederation and China Enterprise Directors Association. Under its mission "to create a wealthy and peaceful life" while adhering to principles of "faithful services and careful management", the Group aims to continue developing into an outstanding Chinese brand in global financial services. In November 2011, TPG was upgraded to a Direct State Owned Financial Enterprise (國務院直屬金融企業), together with three other insurance companies namely, China Life Group, PICC Group and China Export & Credit Insurance Corporation. As a result of this elevated status, assignments for Board members and senior management positions will need to be approved by the Central Organisation Department of the Central Committee of the Communist Party, highlighting TPG's importance to, and strong relationship with, the central government of the PRC. The Company believes that the further enhanced government relationship also indicates the government's desire for TPG to make a significant contribution to the development of the PRC's insurance market.

With this upgraded status as a Direct State Owned Financial Enterprise, TPG is expected to play an increasingly important role in promoting the stable development of the PRC's insurance industry and to enjoy certain privileges which will benefit the Group's business operations substantially. The enhanced status also improves TPG's overall profile and strengthens the franchise in positioning for new business opportunities. With a status on par with other directly state-owned enterprises, the Company believes that TPG will have the opportunity to better cooperate with other major PRC state-owned enterprises at the group level to undertake strategic collaborations. TPG recently entered into strategic cooperation agreements with four major banks, namely Agricultural Bank of China, China Construction Bank, Bank of Communications and Bank of China, and twelve large state-owned enterprises, including China National Petroleum Company and China Merchants Group, a remarkable set of outcomes in developing significant client relationships.

Diversified business lines and wide market coverage to achieve stable profitability

Since its inception, the Group has developed a wide range of business lines in order to provide a balanced business model with diverse revenue sources from a variety of insurance businesses and geographical markets. The Group currently provides life insurance in the PRC, property and casualty insurance in the PRC, Hong Kong and other overseas regions such as Macau, Singapore and the United Kingdom, a variety of classes of global reinsurance, pension and group life insurance in the PRC as well as asset management, E-commerce for insurance and insurance/reinsurance intermediary services. The breadth of business is unique in the Chinese insurance sector as no other PRC insurer has such comprehensive and diverse business and geographic coverage. CTIH is the only HK-listed insurer that offers exposures to the global reinsurance business with a focus on the Asia Pacific region. The overseas property and casualty business in aggregate is well capitalised with strong cash generating capabilities and hence provides the Group with a platform for enhancing international presence and facilitating experience and knowledge sharing among the various insurance businesses of the Group. As a composite insurer with different growth drivers, risk profiles and profitability cycles in each business unit, the Group has the capability to complement its multiple growth strategies and value creation, as well as to mitigate market risks associated with each single insurance business. Furthermore, the Group has also been successfully promoting cross-selling and other synergistic opportunities among its various business lines.

The Group has established solid business franchises in each of the markets where it operates. TPL and TPI have built extensive distribution networks in the PRC since their insurance licenses were reactivated in 2001. During the first six months of 2013, based on premium data published by the CIRC, the market shares of TPL and TPI accounted for 5.2% and 1.6% of their respective industries in the PRC. CTPI (HK) has been operating for more than 60 years in Hong Kong, capturing a market share of 3.7% in 2012, based on premium data published by the OCI. TPRe, as one of the largest reinsurers in Hong Kong, with an 18.6% market share in 2012 based on premium data published by the OCI, has strong links with many direct insurers in its core markets and strong underwriting capability. TPRe is one of only three domestic professional reinsurers with national licenses from the CIRC to engage in the reinsurance business in the PRC.

The Group has achieved a track record of stable and profitable growth, demonstrating the success of its business model of developing a diversified and balanced business structure. During the first six months of 2013, the Group's life insurance, property and casualty insurance, and reinsurance businesses accounted for approximately 78.8%, 15.3% and 4.3%, respectively, of the Group's gross premiums written and approximately 44.2%, 23.8% and 9.8%, respectively, of the Group's net assets.

Moreover, the ongoing Restructuring is expected to further enhance the financial performance, stability and scale of the Company. Upon the completion of the Restructuring, the aggregate equity interest in TPL and TPI to be held by CTIH will increase to 75.1% and 100% respectively, which will enable the Group to further enjoy the benefits of economies of scale as TPL and TPI enter into a more mature stage of operation. In addition, the Restructuring is expected to bring in new sources of revenues to the Group; for example, the Group's business will also include property and casualty insurance business in Indonesia which was originally under TPG.

Well-positioned to capture growth opportunities in the PRC insurance market

The PRC economy achieved rapid growth in the past two decades, with its nominal GDP increasing at a CAGR of approximately 15.8% from 2002 to 2012. Continued economic growth has led to increases in disposable income per capita, more vibrant commercial activities and the accumulation of corporate and personal assets, creating a growing demand for a variety of insurance products. Meanwhile, the PRC's ongoing urbanisation process and expanding middle class are expected to continue to increase demand for insurance products, including those with long-term risk protection and investment features. Nevertheless, the PRC insurance industry remains at an early stage of development, with a relatively low insurance density rate and insurance penetration rate. According to Swiss Re data, life insurance penetration in the PRC remained at a fairly low level of 1.7% in 2012, as compared to 3.7% in the United States, 9.2% in Japan, 3.1% in Germany and similar levels in other developed markets. Non-life insurance penetration in the PRC was 1.3% in 2012, compared to 4.5% in the United States, 2.3% in Japan, 3.6% in Germany and similar levels in other developed markets. With the gradual development of the PRC insurance industry and insurance-related laws and regulations, the growing public awareness of the concept of risk and the availability of insurance, and the continued development of the capital markets, the PRC insurance industry is poised to enjoy substantial future growth.

As a major provider of insurance products and services in the PRC, focusing on stable profitability, leveraging its well-established scale businesses, and the synergies among its various business lines, the Group believes that it is well-positioned to continue to benefit from the significant growth potential of the PRC insurance markets. Since TPL and TPI reactivated their business in the PRC in 2001, the Group has taken advantage of the fast industry growth to increase its gross premiums written. Despite being one of the industry leaders, TPL still enjoys much faster growth rates in terms of gross premiums written than industry averages. TPL's gross premiums written increased at a CAGR of 22.5% from HK$16,245.3 million in 2007 to HK$44,807.5 million in 2012 compared to a CAGR of 19.2% for the industry's gross premiums written. Based on premium data published by the CIRC, TPL's market share increased from 3.1% during 2010 to 5.2% during the first six months of 2013. TPI has also been able to achieve a high growth rate, with market share increasing from 1.3% during 2010 to 1.6% during the first six months of 2013. Supported by the continued strong property and casualty insurance fundamentals in the PRC, TPI's gross premiums written increased at a CAGR of 22.2% from HK$3,500.4 million in 2007 to HK$9,547.8 million in 2012. TPRe, as one of only three domestic professional reinsurers which have a national license from the CIRC to engage in the reinsurance business in the PRC, is well-positioned to benefit from growth opportunities in the PRC market. Mainland China is now TPRe's single largest geographic market, contributing to approximately 44.3% of TPRe's gross premiums written in 2012.

Value-driven product mix focused on profitability and persistency

The Group's strategy has emphasised profitability through long-term, regular premium products over market share gains from short-term products and single premium insurance policies. The Group seeks to sell more high-value and high-quality products and consistently focuses on underwriting regular premium insurance policies that provide a stable revenue stream and higher profit margins. TPL was one of the first insurance companies in the PRC to successfully sell regular premium products through the bank channel. For example, in 2012 and the first six months of 2013, regular premium products constituted approximately 99.8% and 96.8% of gross premiums produced by TPL's individual agents respectively, and long-term saving and long-term protection products constituted approximately 82.7% and 92.7% of the gross premiums produced by TPL's individual agents for the respective periods. In addition, in 2012 and the first six months of 2013, measured by gross premiums written, approximately 81.6% and 80.2%, respectively, of TPL's life insurance products sold by bank outlets had a duration of over 10 years. During the first six months of 2013, TPL's single premium product sales through the bank channel increased substantially. This emphasis on single premiums during the first half was part of a deliberate strategy of TPL to secure and deepen its relationships with banking partners around the country. With a stronger position with banks now, TPL is focused on selling regular premium products through the bank channel for the remainder of 2013. TPL's recent high level of single premium sales was therefore part of a deliberate strategy to further grow its higher profit margin, regular premium products.

In addition, the Group's products have generated high persistency rates. As at 30 June 2013, the 25-month compounded persistency ratio for TPL's regular premium insurance policies sold by individual agents and through bancassurance were approximately 89.0% and 89.8%, respectively.

Since TPL started operations in 2001, the CIRC has regulated and limited guaranteed returns on life insurance policies to 2.5% or below for all insurers in the PRC. As a result, TPL does not have any legacy exposure to negative yielding products. TPL's liabilities are therefore fixed at a relatively low rate and its earnings are not impacted by the legacy negative spread issues.

Operational and underwriting efficiency through state-of-the-art centralised platform

The Group has developed a centralised platform to more effectively manage its underwriting, claims settlement and operational systems. The Group believes that underwriting and claims settlement discipline and efficiency are best achieved through centralisation. By pooling larger pools of risk, the Group is able to achieve optimal and consistent underwriting results while minimising its overhead and administrative costs on its way to reaching scale. Underwriting for the Group's life insurance business is centralised in Shanghai, allowing it to achieve more effective pricing through a more complete understanding of its consolidated, nationwide risk exposure. In its PRC property and casualty business, the Group recently centralised its underwriting processes, along with claims settlement, in the Group's central office in Shenzhen, China. TPI's centralisation of underwriting in its head office in Shenzhen has improved the professionalism of its underwriting operations and has enhanced controls over this important function. TPI's combined ratio improved to 99.5% in the first six months of 2013 from 102.1% in 2010. The loss ratio decreased to 50.6% in the first six months of 2013 from 56.4% in 2010, representing an underwriting improvement at the PRC property and casualty insurance operations.

The Group's ISO9001 certified centralised platform also provides services such as renewal and claim settlement, one-stop service counters that allow on-the-spot payment for small amount claims settlements, and customer service hotlines. Its management system closely monitors core risks and oversees streamlined functions such as processing, billing, and underwriting. Internally, the Group maintains strong communication through its highly integrative information platform which delivers sales support, administration and internal control, as well as a comprehensive client database.

The centralised platform will be further consolidated through the Restructuring which will allow the Group to obtain control and direct management of TPFSC and TPFAS to enhance operational efficiency. TPFSC will provide operating and IT services to the Group including centralised underwriting, renewal and issuance of new policies, claim handling and settlement, and system operation and maintenance. TPFAS will serve internal centralised audit functions to improve audit efficiency, enhance internal controls and strengthen risk management.

Unlike other larger industry players that may need to function under complicated and decentralised systems, the Group is able to benefit from its status as a medium-sized company by operating under a tightly controlled and centralised model. Not only does this model provide opportunities to manage the quality assurance of the products and services, it is also the foundation for the Group's cost management framework.

Prudent and conservative investment portfolio and strategy

The Group is conservative in its investment strategies, investing most of its portfolio in investment grade, fixed income securities and cash and deposits, while equity securities and investment funds accounted for only approximately 8.0% of the consolidated investment portfolio as at 30 June 2013. Over its history of operations, the Group has consistently had lower allocations to equities compared to its peers and competitors. In volatile macroeconomic and financial conditions, the Group believes that such a conservative and prudent approach to investment strategies will allow the Group to maintain stronger financial stability. The Group's consolidated net investment income increased approximately 65.0% from

HK$3,040.2 million during the first six months of 2012 to HK$5,015.9 million during the first six months of 2013. During the same period, its consolidated investment assets have shown robust growth rate of approximately 10.8% to HK$243.5 billion. Total assets in the investment portfolio were composed of investments of the life insurance business at approximately 87.4%, property and casualty insurance at approximately 6.7% and reinsurance at approximately 3.0%.

Even at the subsidiary level, the process of managing investment portfolios has become standardised and consistent. Each of the core operating subsidiaries, TPL, TPI, CTPI (HK) and TPRe, has its own investment committee and risk management committee. Annually or when necessary, core investment policies, and key parameters for asset allocation and risk management are reviewed at each respective company by their respective investment committees and risk management committees. These policies and parameters are then communicated to and discussed with the asset management companies in Shanghai (TPAM) and Hong Kong (TPA (HK)). The investment and risk management committees of TPL, TPI, TPRe and CTPI (HK) meet around once a month and constantly evaluate the investment and risk requirements for their respective investment portfolios. The economic environment, both globally and domestically, liquidity conditions, operating requirements, asset-liability matching concerns and cash flow are just a few of the factors monitored by the investment and risk management committees in setting the investment and risk management policies of each operating business.

With the RMB assets managed by the asset management operations in Shanghai (TPAM), and the non-RMB assets managed by the asset management operations in Hong Kong (TPA (HK)), the Group experiences the benefits of scale and consolidation of its investment portfolio. Centralised investment management increases efficiency and lowers costs, while a consolidated and focused approach enhances controls and risk management. Professionalism and quality among the investment professionals and personnel are also enhanced by having a centralised focus on two centres of asset management. In addition, the economies of scale present meaningful and important advantages in technology and systems, which is becoming increasingly important to the Group's initiatives in risk management and financial reporting of investment results.

Attractive investment property portfolio enhancing group financial performance

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the fair value of the Group's investment properties was HK$4,813.2 million, HK$8,229.1 million, HK$9,293.7 million and HK$9,868.3 million, respectively. Properties held by the Group are mainly office buildings and car parking properties spanning tier-1 cities in the PRC as well as Hong Kong and Macau. The properties are held for long term and leasing purposes which provide a promising and stable source of rental income revenue to the Group. The largest property in the portfolio is a stake in STFT, a grade-A office building located in the heart of the Lujiazui Finance and Trade Zone in the Pudong New Area of Shanghai. On one hand, this prime location helps to promote the Taiping brand. On the other hand, operating since 2011, STFT generates stable returns to the Group. STFT is currently functioning as the headquarters of TPL, TPAM and TPP, while the remaining floors are leased out to third parties at attractive and stable yields. The occupancy rate of STFT was approximately 100% as at 30 June 2013. Given the attractiveness of the property locations and the overall promising long-term economic and financial prospects of Shanghai, Shenzhen and other places where the investment properties are situated, the Group believes that it will also be able to benefit from capital appreciation related to the investment properties over the long term.

Experienced senior management team with extensive operating experience in the PRC insurance industry and strong foreign partnership

The Group's senior management consists of highly qualified professionals with extensive experience and expertise in the industry. Most of the members of the senior management team have demonstrated a strong track record of growing the business at the Group, having held various positions within the Group throughout their careers, including at the overseas operations of TPG. Prior to joining the Group, many members of the senior management had held positions in insurance regulatory agencies and commercial banks in the PRC. As individuals with extensive management expertise in the insurance and financial industries both in the PRC and abroad, they are able to combine broad international experience and local market knowledge. This is best exemplified by the management's supervision of TPRe, the international reinsurance business, and CTPI (HK), the Hong Kong property and casualty business, as well as TPL's partnership relationship with Ageas. Furthermore, the stable and profitable growth of TPL over the years demonstrates the management team's ability to manage proactively while making timely strategic decisions in response to evolving customer needs and market conditions.

The Group also benefits from its strong ties with Ageas, a multi-national insurance company with an established brand heritage. Over the years, Ageas has shared with the Group invaluable experience in actuarial practice, asset-liability management, and internal control, as well as seconded multiple senior level management team members at TPL and TPAM who have been able to offer invaluable professional expertise and experience, while seamlessly integrating into their respective working teams. The Group strongly believes that it will continue to have a wide range of support from Ageas in the future.

Strategies

Focus on quality and profitable growth with balanced business expansion

The Group aims to "Build a New Taiping in Three Years" that is strong in both quality and scale. The Group seeks to achieve the objectives of business expansion, enhancing value and improving profitability, with a goal of sustaining development for the long term without significant performance fluctuations as it further develops economies of scale. It plans to do so by:

- pursuing sustainable, high-value growth in numerous business lines based on the highest standards of profitability and quality;

- optimising business mix and premium paying methods by promoting development and sales of long-term regular premium products through the individual agency and bancassurance channels;

- based on the consolidation of traditional life insurance channels run by agents and banks, exploring comprehensively other business sectors such as direct marketing group insurance and corporate annuities;

- continuing to expand the property and casualty insurance business in the PRC to further achieve economies of scale and sustainable profitability; and

- striving to double total premiums, total assets and net profit in three years, while maintaining quality, efficiency and risks at an acceptable level.

Expand geographic coverage and strengthen distribution network

The PRC operations of the Group will constitute the predominant part of its businesses and operations in the years to come, and are expected to be the key driver of the Group's overall operations. The Group's current strategic initiative of "Building a New Taiping in Three Years' Time", of doubling its total premium, total assets and net profit within three years' time in line with proper risk management standards, is being driven to a large extent by its PRC operations. In light of the continuing urbanisation and increasing household wealth in the PRC, the Group plans to formulate expansion plans tailored to local market economic conditions and develop strategies for product development and distribution channel allocation in different regions. The Group will continue to:

- optimise multi-tiered distribution channels as well as improve and expand provincial and sub-branches based on the Group's strategic focus to expand its market presence in the PRC;

- implement differentiated regional strategies to establish an efficient distribution network that covers most of the developed regions and major cities in the PRC and continue to optimise branch outlet networks and increase the efficiency of each branch outlet; and

- expand into provincial capitals and certain second-tier and other cities and expand the Group's presence into Central and Western China to capture the growth potential in that region.

Maximise agency productivity and cross-selling opportunities by leveraging diversified business platform and e-commerce channel

The Group plans to continue implementation of tailored development strategies for each distribution channel, while maximising the efficiency of each channel at the same time. The Group intends to promote cross-selling opportunities among its different business lines by leveraging its diverse product offerings and its new e-commerce channel.

The Group intends to pursue profitable growth by improving the productivity and efficiency of its various distribution channels. TPL will continue to focus on building its agency force, simultaneously focusing on recruiting new agents and maintaining the high productivity of its existing agency force. TPL will continue to work with its banking partners to promote longer term products through the bancassurance channel, and will strive for breakthroughs and improvements to establish strategic collaborations with large state-owned enterprises and selected partners.

The Group will continue to develop new distribution channels to capture additional revenue and maximise cross-selling opportunities through the establishment of TPeC. TPeC was incorporated in the PRC in July 2012 in order to provide a centralised management services platform for the e-distribution channels of TPL and TPI. Through TPeC, the Group intends to increase sales to existing customers, as well as reach new customers previously not accessed through its existing channels.

Further enhance the operation platform and improve the centralised back office system to capture economies of scale

The Group believes that its ability to centralise its back office functions contributes to its ability to expand in a cost-efficient manner. As the business in China grows, the centralisation of administrative and processing functions for TPL, TPI and TPP will lead to greater cost efficiencies and contribute to continued improvements in operating margins. It also allows management to oversee risk mitigation and quality control. Most importantly, the ability to structure its day-to-day operations in such a centralised manner is a key strength of the Group among its peers in the industry.

The Group's implementation of uniform underwriting standards also provides for the optimisation of the function through centralisation and the proper analysis of life and property and casualty risks on a nationwide basis. In the future, the Group plans to further improve centralised back office systems in order to strengthen its financial position and management capability and lower operating costs.

Improve investment management capabilities and investment returns

Stable and prudent returns on the Group's investment portfolios across its core business units are an essential component of the Group's financial strength. The Group will maintain its conservative investment philosophy while enhancing its investment decision-making mechanism and risk management systems. Because each of the Group's core subsidiaries has its own investment committee and risk management committee, consistent and constant communication among these committees with the asset management companies continues to be a top priority.

Along the same principle, the Group will encourage the risk management committees of TPL, TPI, CTPI (HK), and TPRe to constantly assess economic and political developments, both domestically and globally, and evaluate the risks involved for their respective investment portfolios. It will also diligently improve upon its asset-liability matching and the management of its cash inflows and outflows.

Continue to strengthen risk management and internal control systems

The Group plans to continue investing in improvements to its risk management framework, mechanism and procedures while monitoring investment risks, solvency ratio compliance risk and policy surrender risk. Furthermore, it intends to improve its emergency response system and mitigate risks based on the identification and analysis of risks. In terms of managing investment risks, the Group will build upon its reliable foundation for communication and transparency. Its current system allows for strong communication between the investment and risk management committees of the operating companies and the investment and risk management committees of the asset management companies, which is constant and regular.

In addition, with TPFSC and TPFAS under control and management upon completion of the Restructuring, going forward, the Group will continue to build centralised systems for underwriting, claims settlement and internal control in its operations by applying unified and consistent standards to manage risks and strengthen control.

Business Operations

The following table sets out the gross premiums written, profit/(loss) after taxation and the total assets by business segment for the years and period indicated or as at the dates indicated.

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
Gross premiums written				
Life insurance	37,033.7	37,928.8	44,807.5	40,254.6
Property and casualty insurance	9,739.5	8,938.2	11,692.1	7,816.5
Reinsurance	2,649.7	3,431.1	3,435.3	2,217.0
Other businesses*	25.4	599.6	1,083.2	827.2
Total	**49,448.3**	**50,897.7**	**61,018.1**	**51,115.3**
Profit/(loss) after taxation				
Life insurance	1,088.9	762.3	861.8	289.8
Property and casualty insurance	386.4	551.0	883.3	462.4
Reinsurance	372.7	(41.9)	112.1	195.1
Other businesses*	1,709.0	1,345.1	147.1	(49.7)
Intersegment elimination and adjustment	(324.3)	(608.8)	(126.8)	(71.4)
Total	**3,232.7**	**2,007.7**	**1,877.5**	**826.2**

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
Total assets				
Life insurance	129,945.9	162,565.5	206,479.8	234,481.0
Property and casualty insurance	17,098.7	19,394.9	23,213.6	25,277.9
Reinsurance	6,851.3	8,102.6	8,958.6	9,416.7
Other businesses*	11,931.9	15,136.0	19,207.1	23,161.3
Total	**165,827.8**	**205,199.0**	**257,859.1**	**292,336.9**

Note:

* "Other businesses" mainly includes the results of the pension and group life business, asset management business, insurance intermediaries business, E-commerce for insurance and property investment business together with adjustments.

A description of the operations of each of the Group's business segments is set out immediately below. For a discussion of the Group's investment portfolio, please refer to "– Investment Portfolio" below in this section.

Life insurance

The Group's life insurance segment is operated by TPL, which is PRC-incorporated and is currently 50.05% owned by CTIH, 25.05% owned by TPG and 24.9% owned by Ageas. Upon completion of the Restructuring, CTIH is expected to own a 75.1% equity interest in TPL. TPL is principally engaged in the underwriting of life insurance policies in Mainland China. TPL's products are distributed through individual agents, bancassurance and direct sales which includes telemarketing. TPL had 34 provincial branches and 882 sub-branches and marketing centres in major cities in Mainland China as at 30 June 2013. Based on premium data published by the CIRC, TPL had a market share of 5.2% in the PRC life insurance market for the six months ended 30 June 2013 and was ranked as the seventh largest life insurer in the PRC as at 30 June 2013. TPL has obtained an issuer financial strength rating of "A-" from Fitch.

TPL's gross premiums written amounted to HK$37,033.7 million, HK$37,928.8 million, HK$44,807.5 million and HK$40,254.6 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. TPL generated a profit after taxation of HK$1,088.9 million, HK$762.3 million, HK861.8 million and HK$289.8 million in 2010, 2011 and 2012 and the first six months of 2013, respectively.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, TPL's embedded value was HK$17,511 million, HK$21,574 million, HK$29,286 million and HK$41,938 million, respectively and its new business value after cost of capital for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 was HK$1,827 million, HK$2,244 million, HK$2,304 million and HK$1,650 million, respectively.

Products

TPL mainly engages in the sale of a broad range of life insurance products in the PRC. Life insurance products include participating and non-participating whole life, endowment, term-life products and accident, health and disability insurance.

Capitalising on its insurance industry experience and strong relationships with its customer base, TPL focuses on offering long-term protection-type and long-term savings-type life insurance products. Risk protection and long duration savings are two features of life insurance policies which tend to have more profitability and better profit margins. TPL also seeks to sell products with regular premium features, which also tends to produce higher profitability, but also offer a more stable source of cash flows over time. This emphasis on the bottom-line and profitability is a key characteristic of the culture and philosophy at TPL, and which forms the foundation of its long-term strategy and day-to-day activities.

TPL's individual life insurance products can generally be divided into six major categories: (i) participating life insurance, (ii) long-term health insurance, (iii) traditional life insurance, (iv) accident and short-term health insurance, (v) investment-linked life insurance, and (vi) universal insurance.

Participating life insurance products primarily include endowment life insurance and whole life insurance. In addition to providing the benefits offered under traditional life insurance products, participating life insurance products entitle policyholders to receive dividends in the event the participating products have a distributable surplus in any year during the policy period. TPL, like other PRC insurance companies, is required by the CIRC to allocate at least 70% of the annual distributable surplus of participating life insurance products for the benefit of policyholders.

Long-term health insurance products primarily include critical illness and medical allowance insurance products.

Traditional life insurance products primarily include whole life insurance, term life insurance, and endowment life insurance.

Accident insurance products generally provide benefits in the event of death or disability of the insured party as a result of an accident during the policy period. Short-term health insurance products generally provide disease and medical benefits during the policy period. Accident and health insurance products are mainly offered as riders to TPL's main insurance policies.

Investment-linked insurance plan is a life insurance plan that combines investment and protection. The premiums provide not only a life insurance cover, but part of the premiums will also be invested in specific investment funds.

Universal life insurance offers policyholders insurance protection as well as individual accounts with minimum guaranteed returns. Premium payments, after deduction of certain initial expenses and the cost of insurance for the initial insured period, are generally credited to an individual policy account where interest accumulates at published crediting interest rates.

TPL also offers annuity and a range of employee benefit products to state-owned enterprises, foreign-invested enterprises, privately-held companies and other institutional customers in the PRC, mainly in those areas where TPP does not have a presence. This group life insurance business is in the process of being transferred to TPP to be managed and operated going forward.

The following table sets forth a breakdown of the gross premiums written by TPL by product type for the six months ended 30 June 2013. Participating life insurance products have historically accounted for a substantial portion of TPL's premium income.

	Six months ended 30 June 2013	
	HK$ million	**% of Total**
Participating	38,097.1	94.6%
Long-term health	1,006.6	2.5%
Traditional life	705.4	1.8%
Accident and short-term health	443.9	1.1%
Annuity	1.0	0.0%
Investment-linked	0.6	0.0%
Universal life	0.0	0.0%
Total	**40,254.6**	**100.0%**

Distribution and Marketing

TPL distributes and markets its life insurance products through three distinct channels: the individual agents channel, the bancassurance channel, and direct and other channels, primarily telemarketing.

The following is a breakdown of premiums written for TPL's single and regular premium products by distribution channel for the years and period indicated:

	Year ended 31 December						Six months ended 30 June	
	2010		2011		2012		2013	
	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total
Individual								
Single Premium..........	103.7	0.3%	79.4	0.2%	42.4	0.1%	454.4	1.1%
Regular Premium								
– First Year	4,139.2	11.2%	4,290.2	11.3%	4,420.0	9.9%	4,569.7	11.4%
– Renewal Year..........	6,075.7	16.4%	10,040.2	26.5%	13,780.8	30.8%	9,010.4	22.4%
Sub-total..................	10,318.6	27.9%	14,409.8	38.0%	18,243.2	40.8%	14,034.5	34.9%
Bancassurance								
Single Premium..........	16,090.2	43.5%	10,130.6	26.7%	11,116.8	24.8%	17,023.8	42.3%
Regular Premium								
– First Year	3,440.5	9.3%	2,730.9	7.2%	2,387.8	5.3%	1,061.3	2.6%
– Renewal Year..........	5,941.7	16.0%	9,433.0	24.9%	11,894.9	26.5%	7,464.2	18.5%
Sub-total..................	25,472.4	68.8%	22,294.5	58.8%	25,399.5	56.6%	25,549.3	63.4%
Group								
Employee Benefit	970.6	2.6%	606.1	1.6%	147.6	0.3%	20.4	0.1%
Annuity...................	7.4	–	3.7	–	–	–	–	–
Sub-total..................	978.0	2.6%	609.8	1.6%	147.6	0.3%	20.4	0.1%
Other Channels*								
Single Premium..........	–	–	0.3	0.0%	–	–	–	–
Regular Premium								
– First Year	180.0	0.5%	361.0	0.9%	459.4	1.0%	246.6	0.6%
– Renewal Year..........	84.7	0.2%	253.4	0.7%	557.8	1.3%	403.8	1.0%
Sub-total..................	264.7	0.7%	614.7	1.6%	1,017.2	2.3%	650.4	1.6%
Total.......................	**37,033.7**	**100.0%**	**37,928.8**	**100.0%**	**44,807.5**	**100.0%**	**40,254.6**	**100.0%**

Note:

* Other channels are mainly comprised of telemarketing

Individual Agents Channel

TPL's individual agency force consisted of 109,131 agents as at 30 June 2013. The agents operate out of TPL's branch network and sell products exclusively for TPL. TPL has focused on recruiting and training quality agents with an emphasis on academic qualifications and experience. Many of TPL's life insurance agents (approximately 40%) are educated at the college level or higher. Once recruited, the agents are carefully given a high standard of training in the areas of product knowledge, sales techniques and ethics.

The following table sets forth certain productivity measures for TPL's individual insurance agents for the periods indicated:

	As at 31 December		As at 30 June
	2011	2012	2013
Agent productivity			
– First year premium per agent per month (HK$)........	7,897.3	7,931.4	12,287.3
– Number of new policies per agent per month...........	2.0	1.8	1.3

Currently, TPL's agency force constitutes its second-largest distribution channel, by gross premiums written. However, the percentage of gross premiums written by the agency force out of TPL's total gross premiums written has gradually risen over recent years. Moreover, TPL's experience has been that the life insurance products sold through the agency channel tend to be more complicated and have more product features, and as such tend to have more profitability and higher profit margins. As such, TPL's distribution of products through its agents will be an important and key driver of its operations in the years to come.

Bancassurance Channel

Bancassurance is currently TPL's largest distribution channel. Upon reactivating its business operations in the PRC, TPL began to implement its strategy by focusing on the bancassurance sector, which it recognised as being of lower start-up cost. TPL sells its life insurance products under distribution agreements with a number of state-owned and shareholding banks including Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, Bank of China, Postal Saving Bank of China and Bank of Communications, among other banks across the PRC. Approximately 63.4% of its gross premiums written in the first half of 2013 were from customers sourced through various PRC banks. As at 30 June 2013, TPL's distribution network included 22,555 bancassurance outlets. Although life insurance products sold through the bank channel tend to be simpler and of lower profit margin, TPL has emphasised quality and the bottom line in its bancassurance strategy. TPL was one of the first insurers in the PRC to successfully sell regular premium products through the bank channel, and a majority of TPL's products sold at bank outlets were of a long duration of more than 10 years. As a policy, TPL does not sell any policies of less than three year duration through the bancassurance channel.

During the first six months of 2013, TPL's single premium product sales through the bank channel increased substantially. This emphasis on single premiums was part of a deliberate strategy of TPL to secure and deepen its relationships with its banking partners. With these enhanced relationships, TPL is focused on selling regular premium products through the bank channel. TPL's recent high level of single premium sales was therefore part of a plan to further grow its higher profit margin, regular premium products.

Other Channels

Since 2010, direct marketing has become one of TPL's major distribution channels. Currently, TPL focuses on telemarketing and is working on initiatives with the Internet and mobile phones. TPL believes that the direct channel has good prospects over the long term and hopes to gradually build up its efforts in this area.

Customers

As at 31 December 2012 and 30 June 2013, TPL's life insurance customer base consisted of approximately 6.6 million and 6.7 million individual life insurance customers, respectively, and 2,599 and 2,286 institutional customers, respectively. The table below sets forth the geographic distribution of the gross premiums written in the periods indicated:

Region	**Year ended 31 December 2012**		**Six months ended 30 June 2013**	
	HK$ million	**% of total**	**HK$ million**	**% of total**
Sichuan	4,988.5	11.1%	4,454.0	11.1%
Guangdong	3,936.9	8.8%	3,565.0	8.9%
Shandong	3,805.1	8.5%	3,366.3	8.4%
Beijing	2,956.3	6.6%	2,804.7	7.0%
Henan	2,799.0	6.2%	2,187.5	5.4%
Others	26,321.7	58.8%	23,877.1	59.2%
Total	**44,807.5**	**100.0%**	**40,254.6**	**100.0%**

TPL provides comprehensive and high-quality services to its customers through its nationwide service platform which integrates a cross-regional business reception, one-one stop counter service, "stopless" self-service and standardised quality. Its customer service covers a wide range of basic services such as new policy underwriting, policy maintenance, claims settlement assistance, customer inquiry and complaint handling and renewal of premiums and value-added services such as emergency medical assistance. TPL's contract, claims settlement, preservation, customer service, renewal and new contract call back services have been certified with the ISO9001 standard by the international authoritative certification organisation.

TPL utilises the Group's unified customer service hotline, 95589, accessible throughout the PRC, which handles customer inquiries, complaints, claims settlement, service reservations and emergency assistance services 24 hours a day, seven days a week. The Group's unified website, www.cntaiping.com, is also an important part of the customer service system, allowing customers to learn about the various insurance products and services which TPL offers. Customers are also able to purchase certain insurance policies, make inquiries and settle claims relating to certain existing policies on the website.

The following table sets forth 13-month and 25-month persistency ratios based on the amount of gross premiums written by TPL's individual agents and bank outlets as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
Persistency ratio				
– 13th month				
– Individual	88.2%	92.0%	92.3%	92.9%
– Bancassurance	94.0%	93.2%	92.9%	92.9%
Compounded persistency ratio				
– 25th month				
– Individual	81.0%	84.5%	88.5%	89.0%
– Bancassurance	89.6%	91.5%	90.2%	89.8%

Underwriting and Claims Settlement

TPL has established a centralised control and verification mechanism for its underwriting and claims settlement operations to manage cost control and risk management. It has established, and strictly enforced, standardised underwriting decision-making mechanisms and related operating procedures. Underwriting decisions are made by underwriters based in TPL's centralised back office in Shanghai once TPL's underwriting IT system automatically forwards any insurance policy to be underwritten to the head office. No branches, sub-branches or sales outlets have the authority to underwrite any life insurance policies without prior approval of the underwriters at the centralised back office.

TPL's life insurance claims settlement is centrally handled by the claims department in its centralised back office. Its claims adjusters, who are authorised and supervised by the centralised back office, review life insurance claims within their scope of authorisation.

Capitalising on its nationwide operational network, strong claims investigation capabilities and technological advantages in claims adjustment, TPL is able to provide convenient and high quality claims settlement services to its customers, regardless of where a particular policy was purchased.

Solvency Margin

Under PRC regulations, insurers are required to maintain a regulatory solvency margin ratio above 100% of minimum capital required which is computed based on formulae specified by the CIRC. Any insurers which fall below this level will be required to restore this ratio, and if they cannot, the CIRC may take action to limit their operating activities. The CIRC further classifies insurers as Type One (regulatory solvency margin ratio equal to 100-150%) and Type Two (regulatory solvency margin ratio in excess of 150%). Type Two insurers are permitted to exercise more discretion in their operating and investment activities. As at 30 June 2013, the solvency margin ratio of TPL under the CIRC regulations stood at 223%.

Property and casualty insurance

The Group offers property and casualty insurance in the PRC, Hong Kong and other overseas regions including Macau, Singapore and the United Kingdom. The Group's overseas property and casualty insurance business is also expected to include Indonesia upon completion of the Restructuring.

Property and Casualty Insurance in the PRC

The property and casualty insurance business in the PRC is operated by TPI, which is currently 61.21% owned by CTIH and 38.79% owned by TPG. Upon completion of the Restructuring, TPI is expected to be 100% owned by CTIH. TPI is mainly engaged in underwriting motor, marine and non-marine policies in Mainland China. TPI had 28 provincial branches and 392 sub-branches and marketing centres in major cities in Mainland China as at 30 June 2013. Based on premium data published by the CIRC, TPI had a market share of 1.6% in the PRC property and casualty insurance market for the six months ended 30 June 2013 and was ranked as the eighth largest general insurer in the PRC as at 30 June 2013.

With strong property and casualty insurance fundamentals in the PRC in recent years, TPI's gross premiums written amounted to HK$6,134.7 million, HK$6,994.3 million, HK$9,547.8 million and HK$6,513.3 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. TPI generated a profit after taxation of HK$57.0 million, HK$152.6 million, HK$239.5 million and HK$209.3 million in 2010, 2011 and 2012 and the first six months of 2013, respectively.

Products

TPI offers a broad range of property and casualty insurance products. Products sold by TPI include motor insurance, marine insurance and non-marine insurance.

Most of the insurance contracts are renewable annually and the underwriters have the right to refuse renewal or to change the terms and conditions of contracts at renewal to reduce insurance risk.

The following table sets forth a breakdown of the gross premiums written by TPI by business line for the periods indicated. Motor insurance has historically accounted for a substantial portion of TPI's premium income.

	Year ended December						Six months ended 30 June	
	2010		2011		2012		2013	
Business Line	**HK$ million**	**% of Total**	**HK$ million**	**% of Total**	**HK$ million**	**% of Total**	**HK$ million**	**% of Total**
Motor	5,020.6	81.8%	5,559.0	79.5%	7,713.4	80.8%	5,233.0	80.2%
Marine	156.7	2.6%	193.5	2.8%	220.3	2.3%	163.5	2.5%
Non-marine	957.4	15.6%	1,241.8	17.7%	1,614.1	16.9%	1,126.8	17.3%
	6,134.7	**100.0%**	**6,994.3**	**100.0%**	**9,547.8**	**100.0%**	**6,513.3**	**100.0%**

Distribution and Marketing

The distribution network for TPI's property and casualty insurance products covers substantially all of the PRC, including, as at 30 June 2013, 28 provincial branches and 392 sub-branches and marketing centres, and 6,478 direct sales representatives and 13,130 agents. In addition, TPI sells certain property and casualty insurance products directly to customers through its telemarketing channel, while an increasing amount of premiums is produced by TPL's sales force which sells property and casualty insurance products to its life insurance customers.

Customers

TPI has a large property and casualty insurance customer base in the PRC. As at 31 December 2012 and 30 June 2013, TPI had approximately 2.0 million and 2.6 million individual customers, respectively, and 177,654 and 191,083 institutional customers, respectively.

The table below sets forth the geographic distribution of the gross premiums written recorded by TPI for the periods indicated:

	Year ended 31 December 2012		Six months ended 30 June 2013	
	HK$ million	% of total	HK$ million	% of total
Sichuan	1,184.0	12.4%	703.8	10.8%
Shenzhen	753.8	7.9%	472.9	7.3%
Shanghai	624.4	6.5%	421.8	6.5%
Guangdong	527.2	5.5%	399.4	6.1%
Zhejiang	525.4	5.5%	354.8	5.4%
Others	5,933.0	62.2%	4,160.6	63.9%
Total	**9,547.8**	**100.0%**	**6,513.3**	**100.0%**

Capitalising on TPI's centrally-managed information system platform, in particular its call centres and e-business website, TPI has built a comprehensive customer service system. TPI's customers can call the Group's unified customer service hotline 95589 to report accidents, inquire about policy information and lodge complaints and suggestions. In addition, it has a dedicated team of sales and customer service representatives who are responsible for maintaining customer relationships and promoting new products.

The Group's unified website, www.cntaiping.com, is also an important part of its customer service system. Through the website, TPI's customers are able to learn about the various insurance products and services that TPI offers.

Combined Ratio

During the past few years, TPI has undertaken a major initiative in restructuring its underwriting operations. Previously, underwriting was conducted through a decentralised approach, with underwriting decisions made in each provincial branch office. TPI has now centralised all underwriting decisions for its motor business in its head office in Shenzhen via its centralised back office operation. This centralised structure has allowed for increased professionalism and competence in the underwriting function, and streamlined costs and enhanced efficiency. Centralisation has also enhanced risk management and internal controls. This new approach to underwriting has been one of the key factors behind TPI's improving loss ratio and combined ratio in recent years.

TPI's combined ratio (the sum of loss ratio and expense ratio) was 102.1%, 99.9% 99.8% and 99.5% for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively, representing an underwriting improvement in TPI's property and casualty insurance operations. The following table sets forth TPI's loss ratios, expense ratios and combined ratios for the years and period indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
Loss ratio	56.4%	53.4%	52.2%	50.6%
Expense ratio	45.7%	46.5%	47.6%	48.9%
Combined ratio	102.1%	99.9%	99.8%	99.5%

Solvency Margin

Under PRC regulations, property and casualty insurers, like life insurers, are required to maintain a regulatory solvency margin ratio above 100% of minimum capital required. The CIRC also classifies property and casualty insurers as Type One (regulatory solvency margin ratio equal to 100-150%) and Type

Two (regulatory solvency margin ratio in excess of 150%). Type Two insurers are permitted to exercise more discretion in their operating activities and investment activities. As at 30 June 2013, TPI's regulatory solvency margin ratio stood at 173%.

Property and Casualty Insurance in Hong Kong

The property and casualty insurance business in Hong Kong is operated by CTPI (HK), which is wholly-owned by CTIH and was incorporated in Hong Kong in 1949. CTPI (HK) is mainly engaged in the underwriting of motor, marine and non-marine policies in Hong Kong. CTPI (HK) has obtained both insurer financial strength rating and counterparty credit rating of "A" from Standard & Poor's, and a financial strength rating of "A" from A.M. Best.

CTPI (HK)'s gross premiums written amounted to HK$812.0 million, HK$935.9 million, HK$1,041.5 million and HK$694.7 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. CTPI (HK) generated a profit after taxation of HK$362.5 million, HK$345.6 million, HK$531.5 million and HK$179.3 million in 2010, 2011 and 2012 and the first six months of 2013, respectively.

Products

CTPI (HK) offers a broad range of property and casualty insurance products. Products sold by CTPI (HK) include motor insurance, marine insurance and non-marine insurance.

Most of the insurance contracts are renewable annually and the underwriters have the right to refuse renewal or to change the terms and conditions of contracts at renewal to reduce insurance risk.

The following table sets forth a breakdown of gross premiums written by CTPI (HK) by business line for the periods indicated. Non-marine insurance has historically accounted for a substantial portion of CTPI (HK)'s premium income.

	Year ended 31 December						**Six Months ended 30 June**	
	2010		**2011**		**2012**		**2013**	
Business Line	**HK$ million**	**% of Total**	**HK$ million**	**% of Total**	**HK$ million**	**% of Total**	**HK$ million**	**% of Total**
Motor	192.2	23.7%	198.8	21.2%	219.2	21.0%	140.4	20.2%
Marine	167.1	20.6%	151.6	16.2%	212.9	20.5%	142.4	20.5%
Non-marine	452.7	55.7%	585.5	62.6%	609.5	58.5%	411.9	59.3%
	812.0	**100.0%**	**935.9**	**100.0%**	**1,041.5**	**100.0%**	**694.7**	**100.0%**

Distribution and Marketing

CTPI (HK)'s insurance products are distributed through three primary distribution channels: agents and brokers, direct sales and other financial institutions.

Combined Ratio

For the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, CTPI (HK)'s combined ratio (the sum of loss ratio and expense ratio) was 97.4%, 98.9%, 97.7% and 96.5%, respectively. The following table sets forth CTPI (HK)'s loss ratios, expense ratios and combined ratios for the years and period indicated:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Loss ratio	50.4%	52.2%	46.8%	55.9%
Expense ratio	47.0%	46.7%	50.9%	40.6%
Combined ratio	97.4%	98.9%	97.7%	96.5%

Property and Casualty Insurance in Macau, Singapore, United Kingdom and Indonesia

TP Macau

TP Macau is a limited company incorporated in Macau and commenced operation in 1952. TP Macau is registered under the Macau Insurance Ordinance as an insurer to underwrite general insurance business in Macau, including among others, property, liability, construction all risks, motor, and employee compensation. TP Macau is currently 100% owned by the Company and upon the completion of the Restructuring, it will be 100% owned by CTIH. TP Macau is the market leader in the Macau general insurance industry with the highest market share, 27.2%, in terms of premium income in 2012. TP Macau has obtained a financial strength rating of "A" from A.M. Best.

TP Macau's gross premiums written amounted to HK$268.5 million, HK$301.5 million, HK$406.5 million and HK$240.7 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. TP Macau generated a profit after taxation of HK$35.2 million, HK$27.9 million, HK$73.4 million and HK$34.9 million in 2010, 2011 and 2012 and the first six months of 2013, respectively. TP Macau's combined ratio was 91.2%, 87.4% 86.9% and 77.2% for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

TP Singapore

TP Singapore is incorporated in the Republic of Singapore in 1938 with its principal place of business and registered office in Singapore. TP Singapore was registered as a direct general insurer on 16 December 2002 under the Insurance Act, Chapter 142 to underwrite general insurance business, including motor, workmen's compensation, marine cargo, marine hull, fire, bonds, personal accident, health, public liability, engineering/CAR/EAR, professional indemnity and others. TP Singapore is currently 100% owned by the Company and upon the completion of the Restructuring, it will be 100% owned by CTIH. As at 31 December 2012, TP Singapore ranked fourteenth in terms of premium income with a market share of 2.1% in Singapore in 2012. TP Singapore has obtained a financial strength rating of "A-" from A.M. Best.

TP Singapore's gross premiums written amounted to HK$368.1 million, HK$435.0 million, HK$451.0 million and HK$273.8 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. TP Singapore generated a profit after taxation of HK$71.0 million, HK$56.2 million, HK$89.8 million and HK$32.5 million in 2010, 2011 and 2012 and the first six months of 2013, respectively. TP Singapore's combined ratio was 84.7%, 83.5% 85.4% and 83.5% for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

TP UK

TP UK is a limited company incorporated in the UK in 1983. It has a registered and paid-in capital of HK$187.97 million as at 31 December 2012. TP UK mainly operates in the small to medium retail market writing traders combined business through appointed brokers or directly with its customers. TP UK is currently 100% owned by the Company and upon the completion of the Restructuring, it will be 100% owned by CTIH.

TP UK's gross premiums written amounted to HK$162.8 million, HK$176.7 million, HK$179.7 million and HK$94.4 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. TP UK had a loss after taxation of HK$28.2 million in 2010, and generated a profit after taxation of HK$9.3 million, HK$27.2 million and HK$5.3 million in 2011 and 2012 and the first six months of 2013, respectively. TP UK's combined ratio was 172.9%, 95.0% 97.2% and 94.1% for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

TP Indonesia

Upon completion of the Restructuring, the Group's overseas property and casualty insurance business will also include TP Indonesia. TP Indonesia is currently jointly owned by TPG as to 55% and PT Megah Putra Manunggal, an independent third party, as to 45% and upon completion of the Restructuring, CTIH will own TPG's 55% equity interest in TP Indonesia. TP Indonesia is engaged in general insurance business including fire, motor vehicle, engineering, marine cargo and general. It commenced operations in September 1990 and obtained a license to operate as a joint venture non-life insurance business in June 1996. TP Indonesia obtained a license to engage in health insurance business in December 2000. TP Indonesia is domiciled in Jakarta, Indonesia.

TP Indonesia's gross premiums written amounted to HK$61.8 million, HK$90.5 million, HK$88.6 million and HK$62.3 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. TP Indonesia generated a profit after taxation of HK$1.7 million, HK$4.8 million, HK$7.0 million and HK$6.7 million in 2010, 2011 and 2012 and the first six months of 2013, respectively. TP Indonesia's combined ratio was 90.1%, 77.1%, 74.2% and 71.6% for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

Reinsurance

The Group's reinsurance business is operated by TPRe, which is wholly-owned by CTIH and was incorporated in Hong Kong in 1980. TPRe is mainly engaged in the underwriting of all classes of non-life reinsurance business around the world, consisting mainly of short-tail property reinsurance business in the Asia Pacific region. TPRe also engages in the underwriting of certain classes of long-term (life) reinsurance business. TPRe has chosen not to engage in long-tail liability reinsurance business from outside of Asia, such as from the United States and Europe. TPRe is one of the largest reinsurers in Hong Kong with a market share of 18.6% in 2012 based on premium data published by the OCI. TPRe has obtained an issuer financial strength rating of "A" from Fitch, a financial strength rating of "A-" from A.M. Best and both financial strength rating and counterparty credit rating of "A" from Standard & Poor's.

TPRe experienced favourable premium growth in 2010, 2011, 2012 and the first six months of 2013. TPRe had gross premiums written of HK$2,649.7 million, HK$3,431.1 million, HK$3,435.3 million and HK$2,217.0 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013.

TPRe recorded a profit after taxation of HK$372.7 million in 2010, incurred a loss after taxation of HK$41.9 million in 2011, and generated a profit after taxation of HK$112.1 million and HK$195.1 million in 2012 and the first six months of 2013, respectively. The losses in 2011 were mainly caused by significant claims from several natural catastrophes which occurred in Asia during 2011, as well as lower total investment income due to unfavourable equity market conditions in Hong Kong and the PRC. During the first half of 2013, TPRe returned to profitability, as no major losses occurred during the period.

Activities and Products

TPRe is principally engaged in the underwriting of all classes of non-life reinsurance businesses around the world, with emphasis on the Asia Pacific region.

The following table sets forth the percentage of gross premiums written by business line for the periods indicated:

	Year ended 31 December		
Business line	**2010**	**2011**	**2012**
General business	99.2%	99.2%	98.9%
Treaty	90.3%	91.7%	91.0%
– Property	67.0%	56.1%	58.3%
– Marine	10.4%	8.4%	9.5%
– Liability	10.1%	24.7%	20.8%
– Bonds and credit	2.8%	2.5%	2.4%
Facultative	8.9%	7.5%	7.9%
Life business	0.8%	0.8%	1.1%
Total	**100.0%**	**100.0%**	**100.0%**

TPRe underwrites reinsurance through either treaty or facultative reinsurance arrangement:

- Treaty reinsurance is a contractual arrangement that provides for the automatic reinsuring of a type or category of risk underwritten by the cedant.

- Facultative reinsurance is the reinsurance of individual risks. Rather than agreeing to reinsure all or a portion of a class of risk, the reinsurer separately rates and underwrites each risk. Facultative reinsurance is normally purchased for risks not covered by treaty reinsurance or for individual risks covered by reinsurance treaties that are in need of capacity beyond that provided by such treaties.

Treaty Reinsurance

Treaty reinsurance constitutes the core part of TPRe's general reinsurance business. For the years ended 31 December 2010, 2011 and 2012, approximately HK$2,393.3 million, HK$3,145.7 million and HK$3,123.8 million, respectively, of TPRe's gross premiums written was derived from treaty general reinsurance, representing approximately 90.3%, 91.7% and 91.0%, respectively, of the total gross premiums written of TPRe for such periods. For the years ended 31 December 2010, 2011 and 2012, approximately 71.7%, 73.6% and 71.6%, respectively, of the gross premiums written of TPRe's treaty general business was written on a "proportional" basis. The balance was accepted on a "non-proportional" basis.

Facultative Reinsurance

For the years ended 31 December 2010, 2011 and 2012, HK$235.7 million, HK$258.5 million and HK$272.1 million, respectively, of TPRe's gross premiums written was derived from facultative general reinsurance, representing approximately 8.9%, 7.5% and 7.9%, respectively, of the total gross premiums written of TPRe for such periods.

Distribution and Marketing

TPRe is authorised to underwrite business worldwide from Hong Kong, Labuan and the PRC. Hong Kong and Macau, Mainland China, Taiwan, Japan and the rest of Asia together make up TPRe's core markets.

The following table sets forth the geographic distribution of TPRe's customers by gross premiums written for the period indicated:

	Year ended 31 December						Six months ended 30 June	
	2010		2011		2012		2013	
	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total
Hong Kong & Macau	352.4	13.3%	705.9	20.6%	431.9	12.6%	302.2	13.6%
Mainland China (& Taiwan)	1,061.4	40.1%	1,271.3	37.1%	1,521.4	44.3%	930.3	42.0%
Japan	163.9	6.2%	180.6	5.3%	209.9	6.1%	120.7	5.4%
Rest of Asia	587.2	22.2%	677.7	19.7%	669.0	19.5%	412.6	18.6%
Europe	287.4	10.8%	391.6	11.4%	380.2	11.1%	298.4	13.5%
Others	197.4	7.4%	204.0	5.9%	222.9	6.4%	152.8	6.9%
Total	**2,649.7**	**100.0%**	**3,431.1**	**100.0%**	**3,435.3**	**100%**	**2,217.0**	**100.0%**

TPRe also operates an offshore reinsurance branch office in Labuan, Malaysia, which was established in 2000. The Labuan presence allows TPRe to operate and write reinsurance business in and from Malaysia and to benefit from its favourable trading environment. TPRe opened its Beijing branch in late 2008 and is one of only three domestic professional reinsurers with national licenses to engage in reinsurance business in the PRC. Five foreign-invested professional reinsurers are also licensed in the PRC. Through its Beijing branch, TPRe has successfully enlarged its presence in Mainland China. Mainland China is now the single largest geographic market for TPRe.

Customers

TPRe's treaty reinsurance portfolio is written with a broad customer base including (i) insurance companies, (ii) ceding reinsurance companies and (iii) insurers and ceding reinsurers referred by brokers acting on their behalf from around the world.

TPRe's facultative business is derived predominantly from customers within the Asian region, principally Hong Kong, Macau and Mainland China. A large number of TPRe's facultative customers have established reinsurance relationships with TPRe, and have provided TPRe with a consistent source of premium income in the past. TPRe's client servicing team provides clients with a comprehensive range of services in the areas of reinsurance arrangements, account settlement, claims handling, renewal, as well as the provision of professional reinsurance advice.

Underwriting

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

Combined Ratio

The decision to underwrite and the level of risk exposure are determined by considering factors including risk exposure, pricing, profit potential, class of business, marketing strategy, retrocession facilities available, connections with the relevant cedants and market trends.

The combined ratio (the sum of loss ratio and the expense ratio) for TPRe's reinsurance business as at 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 was 94.0%, 103.9%, 106.9% and 92.4%, respectively. 2011 was a very unusual year in terms of the frequency of natural catastrophes and their geographical distribution. According to various industry research analyses and statistics, 2011 surpassed 2005 to become the worst year ever in terms of natural catastrophes for the global insurance industry. Although having several sequential and large natural catastrophes occurring in the same year in Asia is a very rare occurrence, these disasters had a pronounced effect TPRe's reinsurance business. TPRe, with most of its gross premiums written sourced from Asia, suffered losses arising from natural catastrophes in the region, specifically the earthquake in New Zealand in February 2011, the earthquake in Japan in March 2011, and the flooding in Thailand in October 2011, causing it to record in 2011 its first annual loss since its founding. Late claims notifications in connection with the 2011 Thai floods from certain companies pushed up the net claims incurred during 2012. During the first six months of 2013, the combined ratio improved considerably, as no major losses occurred during the period.

Other businesses

Pension and Group Life Insurance Businesses

The Group's pension management business is operated by TPP, which is PRC-incorporated and is currently 96% owned by CTIH and 4% owned by TPG. Upon completion of the Restructuring, TPP will be 100% owned by CTIH. TPP is principally engaged in corporate and personal retirement insurance and annuity businesses, and group life insurance business in Mainland China. Beginning in the second half of 2011, TPL's group life insurance portfolio has being gradually transferred to TPP to be managed and run and to better utilise the Group's customer base and resources. The Group anticipates the new business model will enable TPP to achieve the economies of scale which are critical and necessary for operating profitability in the pension business.

In 2010, 2011, 2012 and the first six months of 2013, TPP had gross premiums written of HK25.4 million, HK$641.5 million, HK$1,136.4 million and HK$879.0 million, respectively. TPP had a loss after taxation of HK$179.6 million, HK$193.9 million and HK$128.6 million in 2010, 2011 and 2012, respectively, and a profit after taxation of HK$2.3 million in the first six months of 2013. Products sold by TPP include health insurance, accident insurance and group life insurance. The following table sets forth the percentage of gross premiums written by business line for the periods indicated:

	Year ended 31 December 2012		Six months ended 30 June 2013	
Business line	**HK$ million**	**% of total**	**HK$ million**	**% of total**
Health	721.4	63.5%	598.6	68.1%
Accident	326.6	28.7%	221.2	25.2%
Group life	88.4	7.8%	59.2	6.7%
	1,136.4	**100.0%**	**879.0**	**100.0%**

As at 30 June 2013, TPP served its customers through 17 branches operating in major provinces in China. The following table sets out the key operational data of TPP's pension business as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
Annuity and investments funds (HK$ million)	38,010	48,737	61,731	68,509
Number of enterprises in funds and schemes	6,686	6,703	6,787	6,807

Asset Management Business

TPAM and TPA (HK) are mainly engaged in the provision of investment consultancy services to the group companies in managing their RMB and non-RMB investment portfolios, respectively. TPAM is a PRC-incorporated company headquartered in Shanghai and is currently 60% owned by CTIH, 20% owned by TPG and 20% owned by Ageas. Upon completion of the Restructuring, CTIH will have an 80% equity interest in TPAM. TPA (HK) is a Hong Kong-incorporated company headquartered in Hong Kong and is wholly-owned by CTIH.

As at 30 June 2013, TPAM and TPA (HK) had assets under management of HK$220,090 million and HK$11,623 million, respectively. In 2010, 2011 and 2012 and the first six months of 2013, the asset management business produced a profit after taxation of HK$13.1 million, HK$29.1 million, HK$31.7 million and HK$10.5 million, respectively.

The following table sets out the assets under management of TPAM and TPA (HK) as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
TPAM				
Assets under management	118,042	142,790	177,949	220,090
Including: Assets within the Group	107,431	134,081	160,663	196,427
TPA (HK)				
Assets under management	7,546	7,299	10,152	11,623
Including: Assets within the Group	6,628	6,366	8,968	8,622

Insurance Intermediary Business

The Group's insurance intermediary business is operated by TPRB and TP Japan.

TPRB

TPRB is wholly-owned by CTIH and is incorporated and headquartered in Hong Kong. TPRB is mainly engaged in broking services for reinsurance and insurance companies. TPRB's key markets are Hong Kong, Macau, Singapore and PRC.

TP Japan

TP Japan is a limited company incorporated in Japan in 1991. The principal activities of TP Japan are the provision of insurance agency services in the Japanese market. In addition, TP Japan also maintains long-term business relationships with major insurance enterprises in Japan for the benefit of TPG. In this regard, TP Japan is a cost centre within the TPG Group. TP Japan also produces rental income from its properties.

Property Investment Business

The group companies involved in property investment include TPIH, Dragon Jade and Ming Lee, which are wholly-owned by the Company and derive the majority of their respective book value from various offices and car parking properties spanning tier-1 cities in the PRC as well as Hong Kong and Macau, most of which are for rent (the rest are for self-use), providing a constant and stable cash flow stream to the Group. The largest holdings include STFT, which is located in the heart of the Lujiazui Finance and Trade Zone in Shanghai, the PRC. Upon the completion of the Restructuring, TPIH, Dragon Jade and Ming Lee will be 100% owned by CTIH.

TPIH

TPIH is a limited company incorporated in Hong Kong. It has a registered and paid-in capital of HK$215.0 million as at 31 December 2012. TPIH principally acts as an investment holding company and generates its revenue from property rental income, interest income and dividend income. TPIH holds properties in PRC, Hong Kong and Macau. The major properties held by TPIH include Taiping Finance Tower in Shanghai, the PRC, 18 units in Beijing Wangfujing Century Plaza in Beijing, the PRC, 34 residential units in Profit Mansion, Hong Kong and a residential unit in Macau. The properties are leased out to procure rental income.

For the years ended 31 December 2010, 2011 and 2012 and the first six months of 2013, TPIH generated rental income of HK$9.9 million, HK$72.6 million, HK$210.2 million and HK$120.9 million, respectively, and TPIH had a profit after tax of HK$317.2 million, HK$1,329.4 million, HK$530.1 million and HK$198.7 million, respectively. As at 31 December 2010, 2011 and 2012 and 30 June 2013, TPIH had interests in properties with a carrying amount of HK$3,484.5 million, HK$5,045.2 million, HK$5,324.4 million and HK$5,587.6 million, respectively.

Dragon Jade

Dragon Jade is a limited company incorporated in the PRC. It has a registered and paid-in capital of approximately HK$52.78 million as at 31 December 2012. Dragon Jade principally acts as an investment holding company and generates its revenue from property rental income, interest income, utilities income and property management income. Dragon Jade holds properties in the PRC comprising 25 factory buildings in Dragon Jade Industrial District, Bantain Village, Buji Town, Shenzhen, Guangdong Province, the PRC and Flats A to F on the 18th Floor, Cui Lin Mansion, Yuanling Garden, Hongling Zhong Road, Futian District, Shenzhen, Guangdong Province, the PRC. The properties are leased out to procure rental income.

For the years ended 31 December 2010, 2011 and 2012 and the first six months of 2013, Dragon Jade generated rental income of HK$45.7 million, HK$50.8 million, HK$54.2 million and HK$30.2 million, respectively, and Dragon Jade had a profit after tax of HK$35.4 million, HK$131.2 million, HK$64.8 million and HK$28.9 million, respectively. As at 31 December 2010, 2011 and 2012 and 30 June 2013, Dragon Jade had interest in properties with carrying amount of HK$483.0 million, HK$653.4 million, HK$697.7 million and HK$717.1 million, respectively.

Ming Lee

Ming Lee is a property holding company whose property's carrying value as at 31 December 2010, 2011 and 2012 and 30 June 2013 were HK$256.9 million, HK$270.2 million, HK$315.1 million and HK$315.1 million, respectively. The properties are all residential properties located in Hong Kong for staff quarters purpose.

Revenue of Ming Lee consist of rental income of investment properties of HK$5.4 million, HK$5.0 million, HK$5.6 million and HK$1.6 million for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, respectively.

E-commerce for Insurance

In July 2012, the Group set up a new subsidiary, TPeC, which is incorporated in the PRC and is 80% owned by CTIH. TPeC will provide a centralised management services platform for the e-distribution channels of TPL and TPI. Through TPeC, the Group intends to increase direct sales to customers.

Securities Broking Business

The Group's securities broking business is operated by TPFH. TPFH is a wholly-owned subsidiary of the Company incorporated in Hong Kong and operates as a financial services company providing securities broking services through its wholly-owned subsidiary, covering Hong Kong-listed shares, Shanghai and Shenzhen B shares, as well as shares listed in Singapore and Taiwan. TPFH, through its wholly-owned subsidiary, carries out the business of securities dealing (Type 1 regulated activity) as approved under the SFO. Upon the completion of the Restructuring, TPFH will be 100% owned by CTIH.

Financial Support Services Business

Upon completion of the Restructuring, the Group's business will also include financial support services business. Currently, many important management and business operational functions are provided by entities held by TPG under service agreements entered into between such entities and members of the Group. Key centralised services and operations provided by TPG include:

- operating and information technology services provided by TPFSC, including centralized underwriting and the issuance of new policies, renewal and maintenance of in-force policies, claims handling and settlement, telephone enquiry services, systems operation and maintenance, and systems development; and

- internal audit functions of all businesses of the Group provided by TPFAS.

Upon completion of the Restructuring, TPFSC and TPFAS will be wholly-owned by CTIH, and CTIH will have direct management and supervision over these important operational functions of the Group. This would allow the Group to consolidate the support operations and reduce the number of connected party transactions between the Group and TPG. Reducing the level of such related party transactions is expected to free up significant management time and attention, and allow each operating business to focus on its respective core strategies.

Investment and Risk Management

Investment and risk management framework

Each of the core operating subsidiaries, namely TPL, TPI, CTPI (HK) and TPRe, has its own investment committee and risk management committee. Broad investment policies, asset allocation and risk management parameters are set annually at each respective company by its investment committee and risk management committee. These policies are then communicated to and discussed with the asset management companies in Shanghai (TPAM) and Hong Kong (TPA (HK)). The investment and risk management committees of TPL, TPI, CTPI (HK) and TPRe meet frequently, around once a month, and constantly evaluate the investment and risk requirements for their respective investment portfolios. The economic environment, both globally and in the PRC and Hong Kong, liquidity conditions, operating requirements, asset-liability matching concerns and cash inflows and outflows are just a few of the factors monitored by the investment and risk committees in setting the investment and risk management policies of each operating business.

Both TPAM and TPA (HK) have investment and risk management committees which meet on a monthly and quarterly basis, respectively. These asset management company committees are focused on implementing the investment and risk management policies set by the operating businesses. Investment strategies are set and designed by the professionals of the asset management companies with the goal of meeting the broad investment and risk management policies of the operating companies. These investment strategies are then approved by the asset management company investment and risk management committees. In implementing the investment strategies, for equities investing, a team of portfolio managers is supported by an equity research department. For fixed income investing, a team of portfolio managers is supported by a credit rating department. Both the equity research and credit rating departments independently research and analyse companies to arrive at their own respective equity evaluations and credit ratings.

Communications between the investment and risk management committees of the operating companies and the investment and risk management committees of the asset management companies is constant and regular. The finance and investment professionals of the operating companies participate regularly in the investment and risk management committee meetings of the asset management companies. Because insurance operational conditions may sometimes change over a month by month or quarter by quarter basis, any changes and adjustments to the investment and risk management policies, whether large or minor, are communicated by the operating companies to the asset management companies at the asset management company investment and risk management committee meetings. The dialogue is further enhanced by the participation of the Chief Investment Officer of TPAM in the investment committee meetings of TPL.

Investment projects which involve a sizable investment commitment, such as in infrastructure or real estate, require approval not only by the investment committee at TPAM, but also an independent evaluation and approval by the investment committees at TPL and TPI. Such sizable projects also require an approval by the board of directors of TPAM and the investment committee at TPG. Representatives of senior management from the Company level also participate in the investment committee meetings of TPA (HK).

Investment objectives

The investment policies of TPL and TPI are inherently conservative, as their investment objectives are dictated to a large extent by PRC regulations. The main investment objectives of TPL and TPI are to achieve stable mid-to long-term returns on investments to support their respective insurance liabilities and generate adequate returns for their policyholders, while at the same time minimising investment risks by matching the maturities of assets and the duration of liabilities. The main strategy of both TPL and TPI is to invest primarily in high quality bonds to minimise credit risk and to invest in bonds of appropriate maturity to match the duration of their insurance liabilities and minimise interest rate risk.

Although the investment policies of TPL and TPI emphasise asset quality and liquidity, their investments are exposed to market risks, as well as risks inherent in particular securities. In particular, the investment portfolios of TPL and TPI are subject to the credit risk of the PRC and the financial performance of certain state-related entities, some of which may depend on government support.

The investment objectives of CTPI (HK) and TPRe are to achieve medium-to long-term capital gains and steady investment income from high quality assets, while maintaining adequate liquidity to support their respective underwriting activities. CTPI (HK) and TPRe are subject to regulatory requirements regarding the composition of their respective investment portfolios in Hong Kong. Although the investment policies of CTPI (HK) and TPRe emphasise asset quality and liquidity, their investments are exposed to market risks, as well as risks inherent in particular securities.

Investment portfolios

The investment portfolio of each of the Group's core business segments are as follows:

Life Insurance

TPL's total investment income was HK$4,431.6 million, HK$4,491.6 million, HK$4,651.2 million and HK$4,034.2 million for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively, and its total investment yield for the same periods was 5.0%, 3.6%, 3.1% and 4.4% (annualised), respectively.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total book value of TPL's investment assets was HK$116,209.3 million, HK$150,038.0 million, HK$191,916.6 million and HK$212,888.7 million, respectively. TPL's investments are categorised into six main classes, namely, debt securities, debt schemes, equity securities, investment funds, cash, bank deposits and statutory deposits, and investment properties. The following table sets forth a breakdown of TPL's investment portfolio as at the dates indicated:

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total
Debt securities	73,800.4	63.5%	96,382.9	64.3%	108,769.4	56.7%	123,745.7	58.1%
Debt schemes	3,855.6	3.3%	9,012.3	6.0%	19,748.8	10.3%	23,181.1	10.9%
Equity securities	10,825.2	9.3%	7,667.8	5.1%	7,372.5	3.8%	10,094.0	4.7%
Investment funds	3,963.3	3.4%	5,391.9	3.6%	8,731.3	4.5%	8,334.8	3.9%
Cash, bank deposits and statutory deposits	23,764.8	20.5%	29,559.2	19.7%	44,693.4	23.3%	44,664.1	21.0%
Investment properties	–	–	2,023.9	1.3%	2,601.2	1.4%	2,869.0	1.4%
Total	**116,209.3**	**100.0%**	**150,038.0**	**100.0%**	**191,916.6**	**100.0%**	**212,888.7**	**100.0%**

TPL has always been very cautious in its asset allocation for its investment portfolio. Equity investments were maintained at a relatively low percentage of the asset allocation, while debt securities, debt schemes and cash, bank deposits and statutory deposits constituted a combined total of approximately 87.3%, 90.0%, 90.3% and 90.0% of the total invested assets as at 31 December 2010, 2011 and 2012 and 30 June 2013.

The following table sets forth the classification of TPL's investments in securities under HTM (Held to Maturity), AFS (Available for Sale), HFT (Held for Trading) and LR (Loans and Receivables) as at the dates indicated.

	HTM	AFS	HFT	LR	Total
At 30 June 2013, HK$ million					
Debt securities	96,507.5	26,667.0	–	571.2	123,745.7
Debt schemes	–	–	–	23,181.1	23,181.1
Equity securities	–	10,094.0	–	–	10,094.0
Investment funds	–	8,233.5	101.3	–	8,334.8
	96,507.5	44,994.5	101.3	23,752.3	165,355.6
At 31 December 2012, HK$ million					
Debt securities	87,660.7	20,794.3	–	314.4	108,769.4
Debt schemes	–	–	–	19,748.8	19,748.8
Equity securities	–	7,372.5	–	–	7,372.5
Investment funds	–	7,818.0	913.3	–	8,731.3
	87,660.7	35,984.8	913.3	20,063.2	144,622.0

	HTM	AFS	HFT	LR	Total
At 31 December 2011, HK$ million					
Debt securities	79,962.0	16,106.3	–	314.6	96,382.9
Debt schemes	–	–	–	9,012.3	9,012.3
Equity securities	–	7,667.8	–	–	7,667.8
Investment funds	–	5,391.5	0.4	–	5,391.9
	79,962.0	29,165.6	0.4	9,326.9	118,454.9
At 31 December 2010, HK$ million					
Debt securities	59,222.8	14,544.5	33.1	–	73,800.4
Debt schemes	–	–	–	3,855.6	3,855.6
Equity securities	–	10,683.2	142.0	–	10,825.2
Investment funds	–	3,963.3	–	–	3,963.3
	59,222.8	29,191.0	175.1	3,855.6	92,444.5

The following table sets forth TPL's debt securities classified by type and class as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
Governments and central banks	24,326.0	28,921.8	32,014.3	32,801.7
Banks and other financial institutions	28,000.9	44,376.7	51,648.6	54,653.1
Corporate entities	21,473.5	23,084.4	25,106.5	36,290.9
Total	**73,800.4**	**96,382.9**	**108,769.4**	**123,745.7**

Property and Casualty Insurance

TPI Investment Portfolio

TPI's total investment income was HK$229.2 million, HK$238.3 million, HK$288.0 million and HK$228.6 million for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, respectively, and its total investment yield for the same periods was 4.3%, 3.3%, 3.1% and 4.6% (annualised), respectively.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total book value of TPI's investment assets was HK$6,595.7 million, HK$8,432.9 million, HK$10,245.5 million and HK$11,744.8 million. The following table sets forth a breakdown of TPI's investment portfolio as at the dates indicated:

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total
Debt securities	3,011.4	45.6%	3,830.4	45.4%	4,602.0	44.9%	5,033.0	42.8%
Debt schemes	229.4	3.5%	523.6	6.2%	730.9	7.1%	1,556.7	13.3%
Equity securities	489.7	7.4%	254.2	3.0%	118.9	1.2%	234.5	2.0%
Investment funds	170.5	2.6%	187.9	2.2%	320.5	3.1%	154.8	1.3%
Cash, bank deposits and statutory deposits	2,694.7	40.9%	3,636.8	43.2%	4,473.2	43.7%	4,765.8	40.6%
Total	**6,595.7**	**100.0%**	**8,432.9**	**100.0%**	**10,245.5**	**100.0%**	**11,744.8**	**100.0%**

TPI has always been very cautious in its asset allocation for its investment portfolio. Equity investments were kept at a relatively low percentage of the asset allocation, while debt securities, debt schemes and cash, bank deposits and statutory deposits constituted a combined total of approximately 90.0%, 94.8%, 95.7% and 96.7% of the total invested assets as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The following table sets forth the classification of TPI's investments in securities under HTM, AFS, HFT and LR as at the dates indicated:

	HTM	AFS	HFT	LR	Total
At 30 June 2013, HK$ million					
Debt securities	1,484.2	3,197.3	–	351.5	5,033.0
Debt schemes	–	–	–	1,556.7	1,556.7
Equity securities	–	234.5	–	–	234.5
Investment funds	–	154.8	–	–	154.8
	1,484.2	3,586.6	–	1,908.2	6,979.0
At 31 December 2012, HK$ million					
Debt securities	1,210.4	2,799.6	246.7	345.3	4,602.0
Debt schemes	–	–	–	730.9	730.9
Equity securities	–	118.9	–	–	118.9
Investment funds	–	320.5	–	–	320.5
	1,210.4	3,239.0	246.7	1,076.2	5,772.3
At 31 December 2011, HK$ million					
Debt securities	826.3	2,647.1	11.6	345.4	3,830.4
Debt schemes	–	–	–	523.6	523.6
Equity securities	–	254.2	–	–	254.2
Investment funds	–	187.9	–	–	187.9
	826.3	3,089.2	11.6	869.0	4,796.1
At 31 December 2010, HK$ million					
Debt securities	938.1	1,974.2	99.1	–	3,011.4
Debt schemes	–	–	–	229.4	229.4
Equity securities	–	489.7	–	–	489.7
Investment funds	–	170.5	–	–	170.5
	938.1	2,634.4	99.1	229.4	3,901.0

The following table sets forth TPI's debt securities classified by type and class as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
Governments and central banks	745.7	588.8	591.6	351.5
Banks and other financial institutions	1,101.7	1,521.0	1,739.8	1,454.9
Corporate entities	1,164.0	1,720.6	2,270.6	3,226.6
Total	**3,011.4**	**3,830.4**	**4,602.0**	**5,033.0**

CTPI (HK) Investment Portfolio

CTPI (HK)'s total investment income was HK$339.2 million, HK$354.6 million, HK$546.8 million and HK$174.6 million for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, respectively, and its total investment yield for the same periods was 9.5%, 8.4%, 11.8% and 5.3% (annualised), respectively.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total book value of CTPI (HK)'s investment assets was HK$4,000.1 million, HK$3,908.2 million, HK$4,632.4 million and HK$4,666.6 million, respectively. The following table sets forth a breakdown of CTPI (HK)'s investment portfolio as at the dates indicated:

	At 31 December						As at 30 June	
	2010		2011		2012		2013	
	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total
Debt securities	1,450.3	36.2%	1,485.7	38.0%	1,722.1	37.2%	1,794.1	38.4%
Equity securities	295.4	7.4%	226.5	5.8%	151.4	3.3%	321.5	6.9%
Investment funds	58.8	1.5%	26.5	0.7%	99.9	2.2%	205.4	4.4%
Cash and bank deposits	962.4	24.1%	779.6	19.9%	919.1	19.8%	520.7	11.2%
Investment properties	1,233.2	30.8%	1,389.9	35.6%	1,739.9	37.5%	1,824.9	39.1%
Total	**4,000.1**	**100.0%**	**3,908.2**	**100.0%**	**4,632.4**	**100.0%**	**4,666.6**	**100.0%**

CTPI (HK) has always been very cautious in its asset allocation for its investment portfolio. Equity investments were maintained at a relatively low percentage of the asset allocation, while debt securities and cash and bank deposits constituted a combined total of approximately 60.3%, 57.9%, 57.0% and 49.6%, respectively, of the total invested assets as at 31 December 2010, 2011 and 2012 and 30 June 2013. The following table sets forth the classification of CTPI (HK)'s investments in securities under HTM, AFS, HFT and LR as at the dates indicated:

	HTM	AFS	HFT	LR	Total
At 30 June 2013, HK$ million					
Debt securities	–	1,794.1	–	–	1,794.1
Equity securities	–	321.5	–	–	321.5
Investment funds	–	205.4	–	–	205.4
	–	2,321.0	–	–	2,321.0
At 31 December 2012, HK$ million					
Debt securities	–	1,722.1	–	–	1,722.1
Equity securities	–	151.4	–	–	151.4
Investment funds	–	99.9	–	–	99.9
	–	1,973.4	–	–	1,973.4
At 31 December 2011, HK$ million					
Debt securities	–	1,485.7	–	–	1,485.7
Equity securities	–	226.5	–	–	226.5
Investment funds	–	26.5	–	–	26.5
	–	1,738.7	–	–	1,738.7
At 31 December 2010, HK$ million					
Debt securities	–	1,450.3	–	–	1,450.3
Equity securities	–	295.4	–	–	295.4
Investment funds	–	58.8	–	–	58.8
	–	1,804.5	–	–	1,804.5

The following table sets forth CTPI (HK)'s debt securities classified by type and class as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
Governments and central banks	27.2	5.3	5.3	12.3
Banks and other financial institutions	996.6	1,202.0	1,250.5	1,131.5
Corporate entities	426.5	278.4	466.3	650.3
Total	**1,450.3**	**1,485.7**	**1,722.1**	**1,794.1**

Reinsurance

TPRe's total investment income was HK$320.1 million, HK$130.7 million, HK$328.5 million and HK$178.6 million for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2013, respectively, and its total investment yield for the same periods was 6.1%, 2.1%, 4.8% and 4.5% (annualised), respectively.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the total book value of TPRe's investment assets was HK$5,767.9 million, HK$6,228.4 million, HK$7,393.5 and HK$7,378.9 million. The following table sets forth a breakdown of TPRe's investment portfolio as at the dates indicated:

	As at 31 December						As at 30 June	
	2010		2011		2012		2013	
	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total	HK$ million	% of Total
Debt securities	3,558.8	61.7%	4,083.9	65.6%	4,714.2	63.8%	4,835.1	65.5%
Debt schemes	7.1	0.1%	37.0	0.6%	46.9	0.6%	104.7	1.4%
Equity securities	543.6	9.5%	419.9	6.7%	61.6	0.8%	136.3	1.9%
Investment funds	58.0	1.0%	43.9	0.7%	103.7	1.4%	97.6	1.3%
Cash, bank deposits and statutory deposits	1,529.5	26.5%	1,569.0	25.2%	2,393.4	32.4%	2,127.8	28.8%
Investment properties	70.9	1.2%	74.7	1.2%	73.7	1.0%	77.4	1.1%
Total	**5,767.9**	**100.0%**	**6,228.4**	**100.0%**	**7,393.5**	**100.0%**	**7,378.9**	**100.0%**

TPRe has always been very cautious in its asset allocation for its investment portfolio. Debt securities, debt schemes and cash, bank deposits and statutory deposits constituted a combined total of approximately 88.3%, 91.4%, 96.8% and 95.7% of the total invested assets as at 31 December 2010, 2011 and 2012 and 30 June 2013. The following table sets forth the classification of TPRe's investments in securities under HTM, AFS, HFT and LR as at the dates indicated:

	HTM	AFS	HFT	LR	Total
At 30 June 2013, HK$ million					
Debt securities	3,098.2	1,403.9	21.7	311.3	4,835.1
Debt schemes	–	–	–	104.7	104.7
Equity securities	–	136.3	–	–	136.3
Investment funds	–	67.7	29.9	–	97.6
	3,098.2	1,607.9	51.6	416.0	5,173.7

	HTM	AFS	HFT	LR	Total
At 31 December 2012, HK$ million					
Debt securities	3,211.9	1,143.4	22.2	336.7	4,714.2
Debt schemes	–	–	–	46.9	46.9
Equity securities	–	61.6	–	–	61.6
Investment funds	–	74.3	29.4	–	103.7
	3,211.9	1,279.3	51.6	383.6	4,926.4
At 31 December 2011, HK$ million					
Debt securities	2,652.0	990.3	45.4	396.2	4,083.9
Debt schemes	–	–	–	37.0	37.0
Equity securities	–	419.9	–	–	419.9
Investment funds	–	14.6	29.3	–	43.9
	2,652.0	1,424.8	74.7	433.2	4,584.7
At 31 December 2010, HK$ million					
Debt securities	2,517.0	872.2	169.6	–	3,558.8
Debt schemes	–	–	–	7.1	7.1
Equity securities	–	543.6	–	–	543.6
Investment funds	–	24.4	33.6	–	58.0
	2,517.0	1,440.2	203.2	7.1	4,167.5

The following table sets forth the debt securities classified by type and class as at the dates indicated:

	At 31 December			As at 30 June
	2010	2011	2012	2013
	HK$ million	HK$ million	HK$ million	HK$ million
Governments and central banks	410.2	628.5	569.8	601.0
Banks and other financial institutions	1,810.9	2,105.5	2,275.2	2,280.8
Corporate entities	1,337.7	1,349.9	1,869.2	1,953.3
Total	**3,558.8**	**4,083.9**	**4,714.2**	**4,835.1**

Risk management

Risk management is fundamental to the Group's operations and its long-term growth. The Group has devoted substantial resources to enhancing its risk management over the years, and seeks to further strengthen its risk management capabilities by establishing a comprehensive and integrated risk management framework that is designed to identify, assess and control risks in the Group's operations, to support its business decisions and help ensure prudent management. The Group's management of insurance risk, financial risk and capital risk is a critical aspect of its business.

Insurance Risk Management

The Group manages insurance risk through multiple ways, including the application of various policies and procedures relating to underwriting, pricing, claims and reinsurance as well as experience monitoring. The Group uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analysis and scenario analysis.

Asset and Liability Matching

The objective of the Group's asset and liability management is to match assets with liabilities on the basis of duration. It actively manages its assets using an approach that balances quality, diversification, asset and liability matching, liquidity and investment return. The goal of the investment process is to maximise investment returns at a tolerable risk level, while ensuring that the assets and liabilities are managed on a cash flow and duration basis. However, in respect of the life insurance business, under the current regulatory and market environment and the stage of development of the fixed income capital markets in the PRC, the Group is unable to invest in assets with durations of sufficient length to match the duration of life insurance liabilities. When the regulatory and market environment and the fixed income capital markets permit, the Group intends to gradually lengthen the duration of its assets.

The Group reduces the level of the asset-liability mismatch by:

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

Insurance Risks

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

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcomes will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed an insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcomes. It uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses and scenario analyses.

The concentration and mitigation of insurance risk in each of the Group's core business segments are as follows:

Life insurance business – Concentration risk in life insurance business is the risk of incurring a major loss as a result of having a significant mortality or other insurance coverage on a particular person or a group of persons due to the same event. The Group manages the concentration of insurance risks by way of reinsurance arrangements with a maximum retention risk of RMB500,000 per person for life and personal accident policies and RMB200,000 for critical illness insurance. In addition, the Group purchases catastrophe protection for losses arising from claims involving multiple lives from the same event. The maximum retention risk is RMB1 million for each and every loss occurrence, and the total coverage is RMB100 million for each and every loss occurrence. The Group purchases surplus treaties and proportional treaties to cover life, accident and long-term health risks. In addition, an excess of loss reinsurance contract is applied for any insurance contract with significant sum insured.

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

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

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

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

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

Reinsurance business – Concentration risk in reinsurance business arises from the accumulation of risks within a particular business line and geographic area. The Group's key methods in managing these risks are diversification of the business line and areas where the gross premiums are written.

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

The Group arranges pro rata and excess of loss retrocessions for its different lines of reinsurance business, in order to enhance its underwriting capacity as well as to harmonise its net retained exposures. Proportional retrocessions have been arranged in respect of fire and marine cargo businesses. In addition, a series of excess of loss retrocession covers are also arranged to protect the Group against major catastrophic events.

Reinsurance Strategy

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

Reserve Adequacy

The determination of the Group's reserves for its life insurance business is based on realistic assumptions on mortality and morbidity rates, returns on investment, persistency rates and policy maintenance expenses after reasonable and prudent adjustments for adverse deviation to ensure adequacy of reserves on a going concern basis.

In assessing the liability adequacy for the Group's life insurance business, the process employed by the Group to determine the key assumptions that have the greatest effect on the measurement is as follows:

- the qualified professional actuaries of the Group are responsible for setting the assumptions;

- the assumptions are set based on best estimates in accordance with actual operating performance of the business;

- certain assumptions are topped up with additional margin based on professional actuarial estimates to derive a risk margin in the liability of insurance contracts;

- scenario testing in respect of applying different assumptions is performed;

- the qualified professional actuaries of the Group make recommendations to the board and management of the relevant subsidiaries in regards to the results of the scenario testing; and

- the board and management of the relevant subsidiaries are responsible for making final decisions in the determination of the assumptions.

The Group exercises great care and effort in setting up the reserves for its property and casualty insurance and reinsurance businesses. The Group estimates the reserves using actuarial methods such as loss development methods and/or the Bornhuetter-Ferguson methods. The Group regularly reviews the adequacy of its reserves.

Financial Risk Management

Transactions in financial instruments and insurance assets/liabilities may result in the Group assuming financial risks. These include market risk, credit risk and liquidity risk. There has been no significant change in the Group's exposures to risk and how they arise, nor the Group's objectives, policies and processes for managing each of these risks in recent years.

Market Risk

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

Interest rate risk – Interest rate risk is risk to the cash flows or market value of an interest-bearing financial instrument due to uncertain future market interest rates. The Group monitors this exposure through periodic reviews of its financial instruments. Estimates of cash flows, as well as the impact of interest rate fluctuations relating to the investment portfolio are modelled and reviewed periodically. The Group is mainly exposed to fair value interest rate movements in relation to the debt investments classified as available-for-sale and held-for-trading. The Group does not have significant amounts of floating-rate financial instruments.

Equity price risk – The Group has a portfolio of marketable equity securities, which are carried at fair value and are exposed to price risk. As the financial risks of unit-linked contracts are fully undertaken by the policyholders, the assets related to unit-linked products are not included in the Group's analysis of financial risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices. The Group manages the equity price risk by investing in a diverse portfolio of high quality and liquid securities.

Foreign exchange risk – In respect of the life insurance and property and casualty insurance business in the PRC, premiums are received in RMB and the insurance regulation in the PRC requires insurers to hold RMB assets. Therefore the foreign exchange risk in respect of RMB for the Group's PRC operations is not significant.

In respect of the property and casualty insurance business in Hong Kong, Macau, Singapore and the United Kingdom, premiums are mainly received in the relevant domestic currencies. The Group strives to keep the same currencies in broadly similar proportions to its insurance liabilities.

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

Monetary items of the entities of the Group are mostly denominated in their respective functional currencies. Therefore, the Group considers that the foreign exchange risk is not material.

Credit Risk

Credit risk is the risk of economic loss resulting from the failure of one of the obligors to make full payment of principal or interest when due. The Group is exposed to credit risks primarily associated with bank deposits, money market funds, insurance debtors, investments in debt securities, reinsurance arrangements with reinsurers, amounts due from group companies and other debtors.

To reduce the credit risk associated with the investments in debt securities, the Group has established detailed credit control policies. In addition, the risk level of the various investment sectors is continuously monitored with the investment mix adjusted accordingly. In respect of the debt securities invested by the life insurance and the property and casualty insurance businesses in the PRC, the investment policy, which is managed by an investment committee of the respective business, includes the minimum acceptable domestic credit rating of the issuers as required by the CIRC. Any non-compliance or violation of the policy will be followed up and rectification action will be taken immediately. In respect of the debt securities invested by the reinsurance business, the Group restricts investments to debt securities with international credit ratings generally not below investment grade or higher, except for certain sovereign rated securities. In respect of debt securities invested by the property and casualty insurance in Hong Kong, Macau, Singapore and the United Kingdom, it is the Group's general policy to invest in bonds with ratings of investment grade or above.

The Group does not have any significant concentration of credit risk arising from the investments in debt securities since the investment portfolio is well diversified. The credit risk on bank balances is also limited because the relevant banks have high credit ratings. The credit risk associated with insurance debtors and other debtors is not expected to cause a material impact on the Group's consolidated financial results taking into account the collateral held and the maturity terms. In assessing the need for impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

Liquidity Risk

The Group has to meet daily calls on its cash resources, notably from claims arising from its life insurance contracts, property and casualty insurance contracts and reinsurance contracts. There is, therefore, a risk that cash will not be available to settle liabilities when due. The Group manages this risk by formulating policies and general strategies of liquidity management to ensure that it can meet its financial obligations in normal circumstances and that an adequate stock of high-quality liquid assets is maintained in order to contain the possibility of a liquidity crisis.

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

Capital Risk Management

The Group manages its capital to ensure that the entities conducting the life insurance business, the property and casualty insurance business and reinsurance business will be able to meet statutory solvency requirements in the jurisdictions in which they operate and that they will be able to pay back maturing debts and future obligations. The Group's capital management initiatives also strive to maintain a surplus for future business expansion opportunities. The Group's overall capital management strategy remains unchanged in recent years. Each subsidiary conducts solvency tests and provides solvency reports to the insurance regulatory authorities and the Company on a regular basis. The Company monitors the overall solvency position of its subsidiaries on an ongoing basis.

Competition

The Group competes primarily against domestic and foreign-invested life insurance, property and casualty insurance and reinsurance companies. Some of these companies have greater financial, management and other resources than the Group does, and may have longer and more extensive operating experience than the Group. Furthermore, these companies may be able to offer a broader range of products and services and may have a stronger capital base than the Group. In addition, some of the Group's competitors have benefited from more extensive distribution networks than the Group has. Some large corporate groups in the PRC with substantial insurance needs have established their own self-insurance subsidiaries, which may impair the Group's existing customer base and negatively affect the Group's business, results of operations and financial condition, as well as its market position.

The Group also faces competition from smaller insurance companies, which have been making efforts to expand their market shares and may develop strong positions in various regions in which the Group operates. The Group faces potential competition in the PRC from commercial banks, which may be able to invest in, or form alliances with, existing insurance companies to offer insurance products and services that compete against the Group, or establish subsidiaries of their own to engage in insurance business directly.

The presence of foreign-invested insurance companies in the PRC market has continued to increase in recent years, and their business activities have continued to expand as the industry becomes more open to foreign competition as a result of the PRC's commitments pursuant to its WTO accession agreement. In particular, some new foreign entrants may be able to commence operations rapidly by forming alliances and joint ventures with other PRC insurance companies (and also banks) and by employing products and skills developed in their home markets. No geographic or quantitative limitations will apply once liberalisation has been completed. In these circumstances, more foreign insurers may eventually be able to offer insurances services in the PRC without facing significant barriers to entry, which may adversely affect the Group's business as well as its future profitability. Applicable PRC regulations require that the CIRC approves the establishment as well as the commencement of operations of a foreign-invested insurance company. The Group believes the increased competition will also help accelerate the development and expansion of the PRC insurance market.

In addition, changes in PRC investment regulations have relaxed rules on the formation of equity investment funds and sales of securities, among others, and have led to greater availability and variety of financial investment products. These products may be more attractive to the public and adversely affect the sale of some of the Group's insurance products that offer similar or related financial investment functions. See "*Risk Factors – Risk Factors Relating to the Insurance Industry – customer preferences for insurance, investments and pension products as well as wealth management solutions may change and the Group may not respond appropriately or in time to sustain the Group's business or its market share in the geographical markets in which the Group operates*" in this Offering Circular.

Competition in the PRC life insurance market

According to the data published by the CIRC, as at 30 June 2013, there were 69 licensed life insurance companies operating in the PRC, which included 27 foreign life insurance companies licensed to conduct insurance business in the PRC through joint ventures and other arrangements with PRC companies. TPL's market share in the PRC life insurance market, based on premium data published by the CIRC, was 3.1%, 3.3%, 3.7% and 5.2% in 2010, 2011 and 2012 and the first six months of 2013, respectively.

Rather than focusing solely on the growth of gross premiums written and market share, the Group has developed a strategy that emphasises profitability through long-term regular premium insurance products and short-term accident and health insurance riders.

Competition in the PRC property and casualty insurance market

According to the data published by the CIRC, as at 30 June 2013, there were 63 licensed property and casualty insurance companies in the PRC including 21 foreign-invested property and casualty insurance companies licensed to conduct business in the PRC. Based on premium data published by the CIRC, TPI's market share in the PRC property and casualty insurance was 1.3%, 1.2%, 1.4% and 1.6% in 2010, 2011 and 2012 and the first six months of 2013, respectively.

Leveraging on its diversified business platform, professional underwriting capabilities and further business expansion as it reaches economies of scale, the Group believes that it is well-positioned to maintain a stable market share while improving profitability. The Group intends to continue focusing its efforts on the acquisition of higher quality property and casualty insurance customers and on strengthening its distribution network. The Group will strive to continue its positive development of the underwriting function, while gradually gaining economies of scale, with the important goal of achieving a sustainable combined ratio of below 100%.

Competition in Hong Kong and other overseas property and casualty insurance market

As at 30 June 2013, there were 154 authorised insurers in Hong Kong, of which 91 were pure general insurers, 44 were pure long-term insurers and the remaining 19 were composite insurers. CTPI (HK) is one of the major general insurers in Hong Kong, and CTPI (HK) was ranked sixth in the Hong Kong general insurance market in terms of premium income in 2012. CTPI (HK) expects to grow steadily in line with Hong Kong's economy in the years to come. Hong Kong's insurance sector is very mature and competitive, and as a result rapid expansion and growth will not be possible. CTPI (HK) will continue to focus on operating profitability while maintaining its position as one of the top niche insurers in the city.

In other overseas property and casualty insurance markets, TP Macau is the market leader in the Macau general insurance industry with the highest market share of 27.2% in terms of premium income in 2012, and TP Singapore ranked fourteenth in terms of premium income with a market share of 2.1% in Singapore in 2012. The Group believes TP Macau, TP Singapore, TP UK and TP Indonesia have long-term growth potential with proven track records, and intends to continue developing its property and casualty insurance business in these markets to strengthen its international presence and reputation.

Competition in the reinsurance market

Based on premium data published by the OCI, TPRe is one of the largest professional reinsurance companies incorporated in Hong Kong, with a market share of 18.6% in Hong Kong in 2012. For the year ended 31 December 2012 and the six months ended 30 June 2013, the Hong Kong, Macau, and Mainland China and Taiwan business accounted for approximately 56.9% and 55.6% of TPRe's total reinsurance premium income, respectively, and formed the largest market for the Group. TPRe competes in Hong Kong with a number of international reinsurers, many of whom have greater financial resources than it.

It is the Group's intention to maintain TPRe's leading market position in its home markets of Hong Kong, Macau and the PRC, where the Group believes it possesses in-depth knowledge and understanding while offering professional reinsurance services covering all lines of risks on the facultative and treaty, and proportional and excess-of-loss, bases. The Group believes that its established relationships with other direct insurers and reinsurers in the PRC affords it a competitive advantage in capturing the opportunities which the Group expects will arise from the expanding re-insurance market in the PRC. The Group also believes that its established relationships with customers in, and its cultural affinity with, other countries within the Asia Pacific region will continue to enable it to compete favourably in such markets.

Legal and Regulatory Proceedings

The Group is involved in legal and regulatory proceedings in the ordinary course of its business. As at the date of this Offering Circular, the Group was not involved in, or aware of, any litigation, arbitration or administrative proceedings, actual or threatened, that would, individually or in the aggregate, have a material adverse effect on its business, financial condition or results of operations.

The CIRC, the OCI and other governmental agencies, including the SAT, the SAIC, the PBOC, the Ministry of Human Resources and Social Security of the PRC and their local counterparts, from time to time make inquiries and conduct on-site or off-site examinations or investigations concerning the Group's compliance with applicable laws and regulations in relation to its financial condition and business operations, its solvency adequacy, tax payments, labor and social welfare, among other matters. As at the date of this Offering Circular, the Group was not aware of any material examination or investigation that was ongoing with respect to the Group.

Employees

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Group had 35,144, 34,193, 38,951 and 43,141 employees, respectively.

The total remuneration of employees includes salary, bonuses and allowances. Bonus for any given period is based primarily on individual performance and the performance of the Group. Employees also receive health benefits and other miscellaneous subsidies. The Group makes contributions to social welfare for its employees in accordance with applicable laws. The Group operates an MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a Staff Provident Fund Scheme (the "**SPF scheme**") under the Occupational Retirement Schemes Ordinance for employees employed under the Hong Kong Employment Ordinance. Under the MPF scheme, the employers and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of a monthly relevant income of HK$25,000. Contributions to the SPF scheme vest immediately. Under the SPF scheme, the Group is required to make contributions based on a certain percentage of the relevant employees' salaries which is dependent on their length of service with the Group.

As stipulated by the labour regulations of the PRC, the Group's PRC subsidiaries participate in various defined contribution retirement plans authorised by municipal and provincial governments for its staff. These subsidiaries are required to contribute at a rate of 10% to 22%of the salaries, bonuses and certain allowances of their staff to the retirement plans. The Group has no other material obligations for the payment of its staff's retirement and other post-employment benefits other than the contributions described above. The Group has not been subject to any strikes or other labour disturbances and believes that its relations with the employees are good.

The Group believes that the Group's sustainable growth depends on the capability and dedication of its employees and recognises the importance of human resources for improving its business and results of operation. The Group has devoted substantial attention and resources to recruiting and training its employees. The Group provides training to its directors, employees, agents and sales representatives of members of the Group, including the provision of training materials and information and organisation of training-related seminars and activities on basic insurance knowledge, risk management, presentation skills, and other areas. In addition, the Group has adopted a share option scheme and a share award scheme to link employee compensation with business performance, to reward the employees' contributions and to create long-term incentives for employee retention for the continued operations and development of the Group.

Properties

The Company's registered office is located at the 22nd Floor, China Taiping Tower Phase I, 8 Sunning Road, Causeway Bay, Hong Kong.

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

As at 30 June 2013, the Group's investment properties were stated at fair value of HK$9,868.3 million, and the Group was still in the process of obtaining the title deeds from relevant government authorities for its investment properties situated outside Hong Kong with fair value of HK$25.2 million. The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually reviewed every one to three years to reflect market rentals. None of the leases includes contingent rentals.

As at 30 June 2013, the Group's property, plant and equipment had total carrying value of HK$4,809.5 million, and the Group was still in the process of obtaining the title deeds from relevant government authorities for its land and buildings situated outside Hong Kong with carrying value of HK$725.3 million. The Group also leases out certain own-use buildings.

Intellectual Property

The Group conducts business under the "China Taiping" and "中國太平" brand names and logos. CTIH is the registered owner of the domain name "www.ctih.cntaiping.com". As at the date of this Offering Circular, the Group was not aware of any material incidence of intellectual property rights infringement claims or litigation initiated by others and vice versa.

DIRECTORS AND SENIOR MANAGEMENT

The Director(s) and Senior Management of the Issuer

The Company is the sole director of the Issuer.

The Directors and Senior Management of the Company

The Company is managed by the Board, which is collectively responsible for overseeing the management of the Group's business and affairs. The Board also formulates the overall strategies for the Group, monitors the Group's financial performance and maintains effective corporate governance structure. Daily operations and administration are delegated to the management of each individual subsidiary.

The Board currently is comprised of a total of eleven Directors.

Name	Age	Title
Mr. Wang Bin	54	Chairman
Mr. Song Shuguang	52	Vice Chairman and General Manager
Mr. Meng Zhaoyi	53	Executive Director and Deputy General Manager
Mr. Xie Yiqun	52	Executive Director and Deputy General Manager
Mr. Huang Weijian	52	Non-Executive Director
Mr. Zhu Xiangwen	45	Non-Executive Director
Mr. Wu Changming	47	Non-Executive Director
Mr. Ni Rongming	55	Non-Executive Director
Mr. Li Changjiang	68	Independent Director
Mr. Shao Bingren	67	Independent Director
Mr. Wang Guoliang	62	Independent Director

The senior management of the Company also includes:

Name	Age	Title
Mr. Shen Nanning	57	Deputy General Manager
Mr. Peng Wei	48	Deputy General Manager
Ms. Ding Xiangqun	48	Deputy General Manager
Mr. Zheng Changyong	48	Assistant to General Manager
Mr. Chen Mo	53	Person-in-charge of Auditing
Mr. Li Tao	40	Chief Financial Officer

Directors

Mr. Wang Bin

Chairman of the Board
Aged 54
Joined the Board in 2012

Current Key Positions Held in TPG	**TPG**	Chairman, 2012 – Present
Current Positions Held in the Group	**The Company**	Chairman, 2012 – Present
	CTIH	Chairman, 2012 – Present
	TPL	Chairman, 2013 – Present
	TPI	Chairman, 2012 – Present

Past Offices	**Bank of Communications Co., Ltd.**	Executive Director and Vice President Served in several positions including Deputy General Manager and General Manager of the Beijing Branch, General Manager of the Tianjin Branch
	Agricultural Development Bank of China	Served in several positions including Head of Planning Office, Office Assistant Manager and Office Manager, and Deputy General Manager and General Manager of Jiangxi Branch
Education, Qualification & Experience	**Nankai University, China**	Doctor of Philosophy in Economics

Mr. Song Shuguang

Vice Chairman of the Board and General Manager
Aged 52
Joined the Board in 2002

Current Key Positions Held in TPG	**TPG**	Vice Chairman, 2013 – Present General Manager, 2008 – Present
Current Positions Held in the Group	**The Company**	Vice Chairman, 2013 – Present General Manager, 2008 – Present
	CTIH	Vice Chairman, 2008 – Present General Manager, 2013 – Present
	TPL	Director, 2001 – Present
	TPI	Director, 2001 – Present
	CTPI (HK)	Director, 2010 – Present
	TPAM	Director, 2007 – Present
	TPP	Director, 2005 – Present
	TPeC	Chairman, 2012 – Present
	TP UK	Director, 2009 – Present
Past Offices	**CIRC**	Chief Head of Finance & Accounting Department
	PICC	Division Chief and Departmental Deputy General Manager
	The State Planning Commission of the PRC	Deputy Director of the General Affairs Department and Policy & Legal and Policy Research
Education, Qualification & Experience	**Postgraduate School of Jilin University, China**	Master Degree in Economics
	Jilin University, China	Bachelor Degree in Economics

Mr. Meng Zhaoyi
Executive Director and Deputy General Manager
Aged 53
Joined the Board in 2009

Current Key Positions Held in TPG	**TPG**	Director, 2009 – Present Deputy General Manager, 2009 – Present
Current Positions Held in the Group	**The Company**	Deputy General Manager, 2009 – Present Director, 2009 – Present
	CTIH	Director, 2013 – Present
	TPRe	Chairman, 2011 – Present
	CTPI (HK)	Chairman, 2011 – Present
	TPI	Director, 2012 – Present
	CIC Holdings (Europe) Limited	Chairman, 2009 – Present
	TP UK	Chairman, 2009 – Present
	TP Singapore	Chairman, 2009 – Present
	China Taiping Insurance (NZ) Co., Ltd.	Chairman, 2009 – Present
	TP Indonesia	Chairman, 2009 – Present
	TP Japan	Chairman, 2009 – Present
	TP Macau	Chairman, 2009 – Present
	Ming An Holdings Company Limited	Chairman, 2011 – Present
Past Offices	**CIRC**	Served in various positions including Director of the International Cooperation Division of the Foreign Business Department, Deputy Director General and Director General of the Foreign Business Department
	People's Bank of China	Served in various positions including Secretary (Division Chief Level) of the First Division of the General Administration Department and Director of the Property and Casualty Insurance Management Division of the Insurance Department
Education, Qualification & Experience	**Southwestern University of Finance and Economics, China**	Doctor of Philosophy in Economics Master Degree in Economics
	Tianjin University of Finance and Economics, China	Bachelor Degree in Economics

Mr. Xie Yiqun

Executive Director and Deputy General Manager
Aged 52
Joined the board in 2007

Current Key Positions Held in TPG	**TPG**	Director, 2004 – Present Deputy General manager, 2004 – Present
Current Positions Held in the Group	**The Company**	Deputy General Manager, 2008 – Present Director, 2007 – Present
	CTIH	Director, 2004 – Present
	TPL	Director, 2001 – Present
	TPI	Director, 2004 – Present
	TPAM	Chairman, 2007 – Present
	TPA (HK)	Chief Executive Officer, 2004 – Present Director, 2004 – Present
	TPP	Director, 2005 – Present
	TPFH	Director, 2012 – Present
	TPIH	Chairman, 2012 – Present
Past Offices	**PICC Zhejiang Branch**	General Manager of the Foreign Business Department
	PICC Wenzhou Branch	Deputy General Manager
Education, Qualification & Experience	**Middlesex University Business School in the United Kingdom**	Master of Arts in Chinese Management
	Nankai University, China	Insurance, Finance Department Over 30 years of experience in the insurance and finance industries

Mr. Huang Weijian

Non-Executive Director
Aged 52
Joined the Board in 2013

Current Key Positions Held in TPG	**TPG**	Director, 2013 – Present
Current Positions Held in the Group	**The Company**	Non-Executive Director, 2013 – Present
	CTIH	Non-Executive Director, 2013 – Present
Past Offices	**The State Council of China**	Deputy Director of the Rural Integrated Reform Working Group Office

	Ministry of Finance of China	Served in various positions including Deputy Director of the General Affairs and Reform Department, Director of the General Affairs and Reform Department (General Affairs Department) Payment Management Division, the Income and Fund Policy Management Division, the Housing and Land Division
Education, Qualification & Experience	**University of Science and Technology of China**	Doctor of Philosophy in Management Science and Engineering

Mr. Zhu Xiangwen

Non-Executive Director
Aged 45
Joined the Board in 2013

Current Key Positions Held in TPG	**TPG**	Director, 2013 – Present
Current Positions Held in the Group	**The Company**	Non-Executive Director, 2013 – Present
	CTIH	Non-Executive Director, 2013 – Present
Past Offices	**Ministry of Finance of China**	Served in various positions including Deputy Director of the Fifth Division of the Legal Affairs Department, Deputy Director of the Enterprise Financial Management Division of the Tibet Department of Finance, Deputy Director, Researcher and Director of the Second Division of the Legal Affairs Department, Director of the Comprehensive Department, Deputy Director-General of the Legal Affairs Department
Education, Qualification & Experience	**Renmin University of China**	Economics Law, Law Department

Mr. Wu Changming

Non-Executive Director
Aged 47
Joined the Board in 2013

Current Key Positions Held in TPG	**TPG**	Director, 2013 – Present
Current Positions Held in the Group	**The Company**	Non-Executive Director, 2013 – Present
	CTIH	Non-Executive Director, 2013 – Present
Past Offices	**People's Bank of China**	Served in various positions including Assistant Researcher of the Business Management Supervision Division of the Internal Audit Department, Deputy Director and Director of the Financial Audit Division of the Internal Audit Department, Director of the Exit Audit Department, Deputy Director of the Graduate School, Director of the Second Division of the Disciplinary Committee and Supervisory Bureau
Education, Qualification & Experience	**Hunan College of Finance and Economics**	Master of Finance, International Finance Department

Mr. Ni Rongming

Non-Executive Director
Aged 55
Joined the Board in 2013

Current Key Positions Held in TPG	**TPG**	Director, 2013 – Present
Current Positions Held in the Group	**The Company**	Non-Executive Director, 2013 – Present
	CTIH	Non-Executive Director, 2013 – Present
Past Offices	**People's Bank of China**	Served in various positions including Vice President and President of the Liupanshui Branch, President of the Guiyang Branch and Vice President of the Guiyang Central Sub-Branch
	CIRC	Served in various positions including Assistant Director of the Chengdu Office, Deputy Director and Director of the Sichuan Bureau
Education, Qualification & Experience	**Party School of Guizhou Province**	Economics Management

Mr. Li Changjiang

Independent Director
Aged 68
Joined the Board in 2013

Current Positions Held in the Group	**The Company**	Independent Director, September 2013 – Present

Mr. Shao Bingren

Independent Director
Aged 67
Joined the Board in 2013

Current Positions Held in the Group	**The Company**	Independent Director, September 2013 – Present

Mr Wang Guoliang

Independent Director
Aged 62
Joined the Board in 2013

Current Positions Held in the Group	**The Company**	Independent Director, September 2013 – Present

Senior management

Mr. Shen Nanning

Deputy General Manager
Aged 57

Current Key Positions Held in TPG	**TPG**	Deputy General Manager
Current Positions Held in the Group	**The Company** **CTIH** **TPL** **TPI** **TPP** **TPRB**	Deputy General Manager Deputy General Manager Director Director Director Director
Education, Qualification & Experience	**Xiamen University, China** **Dalian Maritime University, China**	Doctor of Philosophy in Finance Specialized in Ship Navigation Senior Economist, over 20 years of experience in insurance

Mr. Peng Wei

Deputy General Manager
Aged 48

Current Key Positions Held in TPG	**TPG**	Deputy General Manager
Current Positions Held in the Group	**The Company** **CTIH** **TPL** **TPI** **TPAM** **TPP** **TPeC**	Deputy General Manager Deputy General Manager Director Director Director Director Director
Education, Qualification & Experience	**Peking University, China**	Master of Science Degree Senior Economist, over 18 years of experience in insurance strategic management

Ms. Ding Xiangqun

Deputy General Manager
Aged 48

Current Key Positions Held in TPG	**TPG**	Deputy General Manager
Current Positions Held in the Group	**The Company** **CTIH** **TPI**	Deputy General Manager Deputy General Manager Director
Education, Qualification & Experience	**Renmin University, China**	Master Degree in Economics

Mr. Zheng Changyong

Deputy General Manager
Aged 48

Current Key Positions Held in TPG	**TPG**	Assistant to General Manager
Current Positions Held in the Group	**The Company** **CTIH** **TPP** **TPAM**	Assistant to General Manager Assistant to General Manager Chairman Director Director
Education, Qualification & Experience	**Beijing Technology and Business University**	Master Degree in Economics

Mr. Chen Mo

Person-in-charge of Auditing
Aged 53

Current Key Positions Held in TPG	**TPG**	Person-in-charge of Auditing
Current Positions Held in the Group	**The Company**	Person-in-charge of Auditing
	CTIH	Person-in-charge of Auditing
	TPI	Director
	TPL	Chairman of the board of supervisors
	TPFH	Director
	TP Macau	Member of the board of supervisors
	TP Japan	Member of the board of supervisors
	TPFAS	General Manager
Education, Qualification & Experience	**Southwestern School of Finance and Economics, China**	Agricultural Economics
	University of South Australia	Master of Business Administration

Mr. Li Tao

Chief Financial Officer
Aged 40

Current Key Positions Held in TPG	**TPG**	Chief Financial Officer
Current Positions Held in the Group	**The Company**	Chief Financial Officer
	CTIH	Chief Financial Officer
	TPL	Director
	TPI	Director
	TPAM	Director
	TPP	Director
	TPA (HK)	Chairman
	TPFH	Chairman
	TP UK	Director
	TP Singapore	Director
	China Taiping Insurance (NZ) Co., Ltd.	Director
Education, Qualification & Experience	**Fudan University, China**	EMBA
	Wuhan University, China	Bachelor of Arts Degree
	The Association of Chartered Certified Accountants of the United Kingdom	Fellow

TAXATION

The following summary of certain British Virgin Islands and Hong Kong tax consequences of the subscription, purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect) and could affect the tax consequences to holders of the Notes. This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to subscribe, purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the subscription of the Notes should consult their own tax advisors concerning the tax consequences of the subscription, purchase, ownership and disposition of the Notes.

Prospective investors should consult their professional advisors on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

Income tax

As of the date of this Offering Circular, the Issuer is exempt from all provisions of the Income Tax Act of the British Virgin Islands, including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by the Issuer to persons who are not persons resident in the British Virgin Islands. No income, capital gain, estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations or other securities of the Issuer.

Withholding tax

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to payments the Issuer may make under the transaction documents relating to the Notes.

The European Union Savings Directive (the "**Directive**") on the taxation of savings income in the form of interest payments took effect on 1 July 2005. The aim of this Directive is to enable savings income in the form of interest payments made in one EU Member State (including the British Virgin Islands where the Issuer is incorporated) to beneficial owners who are individuals resident in another EU Member State to be made subject to effective taxation in accordance with the laws of the latter EU Member State.

The Directive was implemented in the British Virgin Islands by way of a series of bi-lateral agreements with certain Member States, together with amendments to the Mutual Legal Assistance (Tax Matters) Act 2003.

When the Directive was originally introduced, the British Virgin Islands opted to give EU resident individuals the choice between the withholding tax option or the automatic exchange of information option. Under the withholding tax option, banks and other paying agents in the British Virgin Islands will automatically deduct tax from interest and other savings income earned. Under the automatic exchange of information option, certain information will be reported by the bank or paying agent in the British Virgin Islands to the competent authority in the country where the account is held and forwarded to the competent authority of the country where the EU resident individual resides. The Mutual Legal Assistance (Tax Matters) (Automatic Exchange Information) Order 2011 provides that with effect from 1 January 2012 paying agent established in the British Virgin Islands will no longer be subject to, or be able to rely on, the withholding tax option as a way of complying with the Directive. As such, with effect from 1 January 2012 institutions established in the British Virgin Islands will be obliged to disclose the minimum information to the BVI Inland Revenue, which in turn will comply with the information exchange policy under the Directive.

Noteholders who are individuals resident in a member state of the European Union should be aware that any interest payment on Notes or any income realised upon the sale or redemption of their Notes, together with any income in the form of interest, may, if certain requirements are met, become subject to the reporting regime (or the withholding tax regime) imposed by the Directive, if payment of such income is made by a paying agent established either in another Member State, the British Virgin Islands or in certain other jurisdictions which have agreed to introduce an equivalent reporting or withholding tax regime in respect of such payments.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong on payments of principal or interest in respect of the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business excluding profits arising from the sale of capital assets.

Under the Inland Revenue Ordinance (Chapter. 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person (other than a company), carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Capital gains from the sale, disposal or redemption of the Notes are not subject to Hong Kong profits tax. However, trading profits derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sums derive from that trade, profession or business and have a Hong Kong source.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

Estate duty

No Hong Kong estate duty is payable in respect of the Notes.

PRC

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management body" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay PRC enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax regulations, that the "de facto management body" of the Issuer or the Guarantor is within the territory of PRC, the Issuer or the Guarantor may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to PRC enterprise income tax at the rate of 25% for its income sourced from both within and outside PRC. As confirmed by the Issuer and the Guarantor, as at the date of this Offering Circular, neither the Issuer nor the Guarantor has been noticed or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, non-resident enterprise Noteholders will not be subject to income tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer or the Guarantor will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or its incomes have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10% on the incomes sourced inside the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer or the Guarantor is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer or the Guarantor shall withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise Noteholder. However, despite the potential withholding of PRC tax by the Issuer or the Guarantor, the Issuer and the Guarantor have agreed to pay additional amounts to Noteholders so that they would receive the full amount of the scheduled payment, as further set out in the section entitled "*Terms and Conditions of the Notes*" in this Offering Circular.

According to the double taxation arrangement between the PRC and Hong Kong, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Notes. For other investors of the Notes, according to the EIT Law and related implementation regulations, it is unclear if the Issuer or Guarantor are identified as tax resident enterprises by the PRC tax authorities, or whether the capital gains of non-resident enterprises derived from a sale or exchange of the Notes will be subject to PRC income tax. If such capital gains are determined as income sourced in the PRC by PRC tax authority, those non-resident enterprise holders, other than Hong Kong residents, may be subject to PRC enterprise income tax at a rate of 10% of the gross proceeds (unless other tax preferential treatments are provided by any special tax arrangements).

Proposed EU Directive on the Taxation of Savings Income

Under the EU Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

In April 2013, the Luxembourg government announced its intention to abolish the withholding system with effect from 1 January 2015 in favour of information exchange under the Directive.

The European Commission has proposed certain amendments to the EU Council Directive 2003/48/EC which may, if implemented broaden the scope of the requirements described above.

Proposed Financial Transaction Tax ("FTT")

The European Commission has recently published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issue and subscription of Notes should, however, be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The FTT proposal remains subject to negotiation between the Participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or "FFI" (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service (IRS) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a "**Recalcitrant Holder**").

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "grandfathering date" which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If further notes are issued before the grandfathering date, and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an IGA). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If the Issuer becomes a Participating FFI under FATCA, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any Paying Agent and the common depositary, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation in respect of the Programme expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

CLEARING AND SETTLEMENT

Custodial and depositary links have been established with Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and transfers of the Notes associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry of changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide their respective participants with, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Paying Agents, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Registration and Form

Book-entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be evidenced by the Global Certificate, registered in the name of a nominee of the Common Depositary.

The Global Certificate will be held by the Common Depositary. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

The aggregate holdings of book-entry interests in the Notes in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Notes, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interest in the Notes. The Principal Agent and the other Paying Agents will be responsible for ensuring that payments received by them from the Company for holders of interests in the Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be.

The Company will not impose any fees in respect of the Notes; however, holders of book-entry interest in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg.

Global Clearance and Settlement Procedures

Initial Settlement

Interests in the Notes will be in uncertificated book-entry form. Purchasers electing to hold book-entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional eurobonds. Book-entry interests in the Notes will be credited to Euroclear participant securities clearance accounts on the business day following the Issue Date against payment (for value the Issue Date), and to Clearstream, Luxembourg participant securities custody accounts on the Issue Date against payment in same day funds.

Secondary Market Trading

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional participants.

General

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Euroclear and Clearstream, Luxembourg, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

None of the Company and any of its agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

SUBSCRIPTION AND SALE

Each of the Joint Lead Managers has, pursuant to the Subscription Agreement, severally, and not jointly, agreed to subscribe or procure subscribers for the respective principal amount of Notes set out opposite its name below, subject to the provisions of the Subscription Agreement:

Joint Lead Manager	Principal Amount of Notes
ABCHK	US$117,600,000
BOCHK	US$ 97,600,000
CCBI	US$ 17,600,000
CICC	US$ 17,600,000
Credit Suisse	US$ 74,800,000
J.P. Morgan	US$ 74,800,000
Total	US$400,000,000

The Issuer and the Guarantor have also entered into certain arrangements with the Co-Manager in connection with the offer and sale of the Notes without any underwriting commitment. The Notes will be subscribed at the issue price of 100 per cent. of the principal amount of Notes, less a management commission as set out in the Subscription Agreement. The Subscription Agreement provides that the obligation of the Joint Lead Managers to subscribe for the Notes is subject to approval of certain legal matters by counsel and to certain other conditions and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer (failing whom the Guarantor) will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities (including liabilities under the US Securities Act), incurred in connection with the issue of the Notes.

The Joint Lead Managers or certain of their affiliates may subscribe for the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Joint Lead Managers or their respective affiliates may subscribe for the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or affiliates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also subscribe for the Notes). In connection with the Offering, one or more of the Joint Lead Managers, has indicated an interest to purchase, for itself or its affiliates, up to 45% of the Notes.

The Joint Lead Managers, the Co-Manager and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers, the Co-Manager and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and the Group, for which they received or will receive customary fees and expenses.

In connection with the issue of the Notes, a Joint Lead Manager (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, there is no assurance that the Stabilising Manager or any person acting on behalf of the Stabilising Manager will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

Short Positions and Stabilising Transactions

In connection with the Offering, as the Stabilising Manager may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilising purchases. Short sales involve the sale by the Stabilising Manager of a greater principal amount of the Notes than they are required to purchase in the offering. The Stabilising Manager must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Joint Lead Managers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilising transactions involve bids to purchase the Notes so long as the stabilising bids do not exceed a specified maximum.

Similar to other purchase transactions, the Stabilising Manager's purchases to cover the syndicate short sales and stabilising purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market and the price may drop in the event where the Stabilising Manager subsequently liquidates any long position it has on the Notes.

None of the Issuer, the Guarantor or any of the Joint Lead Managers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer, the Company or any of the Joint Lead Managers makes any representation that the Stabilising Manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

United States

The Notes and the Guarantee have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the US Securities Act. Each Joint Lead Manager and the Co-Manager has represented that it has not offered or sold the Notes, and agreed that it will not offer or sell, any Notes constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S under the US Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S.

Each Joint Lead Manager and the Co-Manager has represented that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

(a) if the final terms to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "Non-exempt Offer"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers or the Co-Manager nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Joint Lead Manager or the Co-Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Joint Lead Manager and the Co-Manager has represented and agreed that it has complied and will comply with all applicable provisions of The UK Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each Joint Lead Manager and the Co-Manager has represented and agreed that it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.

Hong Kong

Each Joint Lead Manager and the Co-Manager has represented and agreed that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

Each Joint Lead Manager and the Co-Manager has represented and agreed that it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Joint Lead Manager and the Co-Manager has acknowledged that this Offering Circular (in preliminary, proof or final form) has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular (in preliminary, proof or final form) or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

PRC

Each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of the PRC and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the "**FIEL**") and each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Italy

Each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that the offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the offering circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter (b) of *Commissione Nazionale per le Società e la Borsa* Regulation No. 11971 of 14 May 1999, as amended from time to time (Regulation No. 11971); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of the Preliminary Offering Circular or the Offering Circular or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

(1) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, *Commissione Nazionale per le Società e la Borsa* Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(2) in compliance with article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and

(3) in compliance with any other applicable laws and regulations or requirement imposed by *Commissione Nazionale per le Società e la Borsa* or other Italian authority.

Please note that in accordance with article 100-bis of the financial services act, where no exemption from the rules on solicitation of investments applies under (i) and (ii) above, the subsequent distribution of notes with a denomination of less than €50,000 (or its equivalent in another currency) on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

The Netherlands

Each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that with effect from and including 1 January 2012 and unless otherwise specified in the pricing supplement (in such case in compliance with the Dutch Financial Supervision Act (*Wet op het financieel toezicht*)), it will not make an offer of the Notes in the Netherlands unless such offer is made exclusively to legal entities which are qualified investors as defined in the Prospectus Directive.

British Virgin Islands

Each Joint Lead Manager and the Co-Manager has represented, warranted and agreed that it has not offered or sold, and will not offer or sell any Notes in the British Virgin Islands.

General

No action has been taken by the Issuer, the Guarantor, the Co-Manager or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager and the Co-Manager undertakes that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms. Without prejudice to the generality of the foregoing, each Joint Lead Manager and the Co-Manager agrees that it will obtain any consent, approval or permission which is required, to its knowledge and belief, required for the offer, purchase, delivery or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases, deliveries or sales, and that it will comply with all such laws and regulations.

1. **Clearing Systems**: The Notes have been accepted for clearance through Euroclear and Clearstream. The securities codes for the Notes are as follows:

   Common Code: 097977259

   ISIN: XS0979772596

2. **Listing of Notes**: Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes. It is expected that dealing in, and listing of, the Notes on the Stock Exchange will commence on or about 18 October 2013. Listing of the Notes on the Stock Exchange is conditional upon satisfaction of the requirements of such exchange.

3. **Authorisations**: The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the British Virgin Islands, Hong Kong and the PRC in connection with the issue and performance of the Notes. The issue of the Notes was authorised by written resolutions of the sole director of the Issuer dated 24 September 2013 and the giving of the Guarantee was authorised by a resolution of the Board of the Guarantor passed on 24 September 2013.

4. **No Material Adverse Change**: Except as disclosed in this Offering Circular, there has been no material adverse change, and no development reasonably likely to involve a material adverse change, in the financial or trading position or prospects of the Guarantor or the Group since 30 June 2013 or of the Issuer since the date of incorporation.

5. **Litigation**: None of the Issuer or the Guarantor or its subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor is the Issuer, the Guarantor or its subsidiaries aware that any such proceedings are pending or threatened.

6. **Available Documents**: Copies of the latest audited consolidated financial statements of the Group and unaudited condensed consolidated financial statements of the Group, the memorandum of association and articles of association of the Issuer and the Guarantor, the Fiscal Agency Agreement, the Guarantee and the Deed of Covenant will be available for inspection, at the offices of the Fiscal Agent during normal business hours, so long as any of the Notes is outstanding.

7. **Auditor**: The audited consolidated financial statements of the Group as at and for the years ended 31 December 2011 and 2012, unaudited condensed consolidated financial statements of the Group as at and for the six months ended 30 June 2013, which are included elsewhere in this Offering Circular, have been audited or reviewed by Deloitte Touche Tohmatsu, as stated in its reports appearing herein.

   The pro forma financial information of the enlarged group as at and for the year ended 31 December 2012 and the six months ended 30 June 2013, which is included elsewhere in this Offering Circular, illustrates the effects of the Restructuring (as defined in "*Description of the Group – Restructuring*") upon the enlarged group's financial position as at 31 December 2012 and 30 June 2013 as if the transaction had taken place on 31 December 2012 and 30 June 2013, respectively. The pro forma financial information also illustrate the effects of the Restructuring upon the enlarged group's financial performance for the year ended 31 December 2012 and the six months period ended 30 June 2013 as if the transaction had taken place on 1 January 2012 and 1 January 2013, respectively. Deloitte Touche Tohmatsu has completed its assurance engagement to report on the compilation of such pro forma financial information in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the Hong Kong Institute of Certified Public Accountants, as stated in its reports appearing herein.

8. **Legal Advisor for the Restructuring:** Woo Kwan Lee & Lo, whose office is located at 26th Floor, Jardine House, 1 Connaught Place Central, Hong Kong, is advising the Guarantor as to Hong Kong law in relation to the ongoing Restructuring.

INDEX TO FINANCIAL INFORMATION OF THE GUARANTOR

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF
CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED
中國太平保險集團(香港)有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Taiping Insurance Group (HK) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 113, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with the agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 April 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000
Revenue – Gross premiums written and policy fees	6	51,106,054	49,632,770
Less: Premiums ceded to reinsurers and retrocessionaries		(2,261,523)	(2,225,084)
Net premiums written and policy fees		48,844,531	47,407,686
Changes in unearned premium reserve, net of reinsurance		(590,577)	(829,449)
Net earned premiums and policy fees		48,253,954	46,578,237
Net investment income	7(a)	6,043,371	4,427,832
Net realised and unrealised investment gains and impairment	7(b)	549,422	1,776,184
Other income	8	982,954	163,907
		55,829,701	52,946,160
Benefits, losses and expenses			
Net policyholders' benefits	9(a)	(12,204,148)	(10,162,628)
Net commission expenses	9(b)	(4,514,704)	(4,208,096)
Change in life insurance contract liabilities, net of reinsurance		(27,158,701)	(27,376,989)
Administrative and other expenses		(9,074,547)	(8,509,439)
Total benefits, losses and expenses		(52,952,100)	(50,257,152)
Share of results of associates	16	30,619	17,375
Share of result of a jointly controlled entity		9	–
Gain on disposal of a subsidiary	41	–	1,263,113
Finance costs	10(a)	(635,063)	(405,687)
Profit before taxation	10	2,273,166	3,563,809
Income tax charge	11	(317,771)	(331,140)
Profit for the year		1,955,395	3,232,669
Other comprehensive income			
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong			
– Exchange difference arising during the year	44	737,882	490,773
– Reclassification adjustment to profit or loss upon the disposal of a subsidiary outside Hong Kong during the year	41	–	(86,492)
Revaluation gain arising from reclassification of owner-occupied properties to investment properties			
– Revaluation gain arising during the year	12,14,18	619,732	23,094
– Net deferred tax		(153,784)	–
Share of other comprehensive income of associates		(322)	(669)
Share of other comprehensive income of a jointly controlled entity		10	–
Available-for-sale securities			
– Net fair value changes during the year		(5,196,148)	1,288,366
– Reclassification adjustment to profit or loss on the disposal of a subsidiary during the year	41	–	14,411
– Reclassification adjustment to profit or loss on impairment		813,185	190,601
– Reclassification adjustment to profit or loss on disposal of securities		(52,527)	(1,339,095)
– Net deferred tax		1,022,485	(80,510)
Other comprehensive (expense) income for the year, net of tax		(2,209,487)	500,479
Total comprehensive (expense) income for the year		(254,092)	3,733,148
Profit for the year attributable to:			
Owners of the Company		1,330,035	1,666,873
Non-controlling interests		625,360	1,565,796
		1,955,395	3,232,669
Total comprehensive income (expense) attributable to:			
Owners of the Company		697,630	1,780,414
Non-controlling interests		(951,722)	1,952,734
		(254,092)	3,733,148

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	31.12.2011 HK$'000	31.12.2010 HK$'000
ASSETS			
Statutory deposits	27	2,405,861	1,525,574
Property, plant and equipment	12	4,460,447	3,802,228
Investment properties	13	8,229,112	4,813,191
Prepaid lease payments	14	167,813	693,751
Goodwill	15(a)	1,051,215	1,051,215
Intangible assets	15(b)	264,791	261,408
Interests in associates	16	805,007	786,372
Interest in a jointly controlled entity	17	199	–
Construction in progress	18	111,983	707,220
Properties held for sale	19	9,400	240
Investments in securities	20	132,420,903	104,780,542
Securities purchased under resale agreements	34	119,279	53,471
Insurance debtors	21	2,270,066	1,591,375
Reinsurers' share of insurance contract provisions	22	3,016,740	2,452,076
Policyholder account assets in respect of unit-linked products	23	3,729,117	4,909,273
Other debtors	24	5,399,614	6,122,667
Amounts due from group companies	25(a)	2,655,073	2,300,949
Tax recoverable	26(a)	–	3,157
Deferred tax assets	26(b)	159,276	153,373
Pledged bank deposits	28	256,045	229,481
Deposits at banks with original maturity more than three months		17,704,336	11,626,500
Cash and cash equivalents	29	19,974,510	17,952,585
		205,210,787	165,816,648
Asset classified as held for sale	36	–	11,131
Total assets		205,210,787	165,827,779
LIABILITIES			
Life insurance contract liabilities	30	91,195,983	60,391,614
Unearned premium reserve	31	5,326,736	4,510,015
Outstanding claims reserve	32	10,539,544	8,783,140
Investment contract liabilities	33	31,368,490	36,278,241
Securities sold under repurchase agreements	34	19,618,855	9,829,946
Interest-bearing notes	35(a)	11,040,734	10,231,074
Bank loans and other borrowings	35(b)	3,729,632	4,127,820
Insurance creditors	37	3,128,129	2,057,678
Other creditors and accrued charges	38	4,030,911	3,055,407
Amounts due to group companies	25(b)	45,048	–
Tax payable	26(a)	363,048	501,372
Deferred tax liabilities	26(b)	1,290,002	1,965,339
Insurance protection fund	39	33,847	50,264
Derivative financial instruments	40	45,005	99,269
Total liabilities		181,755,964	141,881,179
Net assets		23,454,823	23,946,600
Capital and reserves			
Share capital	43	3,594,500	3,594,500
Reserves	44	9,193,701	8,682,524
Equity attributable to owners of the Company		12,788,201	12,277,024
Employee share-based compensation reserve of a subsidiary		22,890	52,662
Non-controlling interests		10,643,732	11,616,914
Total equity		23,454,823	23,946,600

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

		Attributable to owners of the Company										
	NOTE	Share capital	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Note a)	(Note b)	(Note c)	(Note d)		(Note e)		(Note f)		
At 1 January 2010		3,500,000	1,077,481	577,878	647,987	52,562	4,486,929	29,332	10,372,169	41,929	9,733,941	20,148,039
Profit for the year		–	–	–	–	–	1,666,873	–	1,666,873	–	1,565,796	3,232,669
Other comprehensive income (expense) for the year		–	–	156,492	(55,269)	12,318	–	–	113,541	–	386,938	500,479
Total comprehensive income (expense) for the year		–	–	156,492	(55,269)	12,318	1,666,873	–	1,780,414	–	1,952,734	3,733,148
Equity settled share-based transactions		–	(2,551)	–	–	–	737	3,134	1,320	10,733	19,618	31,671
Partial disposal of a subsidiary		–	28,621	–	–	–	–	–	28,621	–	(89,379)	(60,758)
Shares issued	43	94,500	–	–	–	–	–	–	94,500	–	–	94,500
At 31 December 2010		3,594,500	1,103,551	734,370	592,718	64,880	6,154,539	32,466	12,277,024	52,662	11,616,914	23,946,600
Profit for the year		–	–	–	–	–	1,330,035	–	1,330,035	–	625,360	1,955,395
Other comprehensive income (expense) for the year		–	–	284,381	(1,065,320)	148,534	–	–	(632,405)	–	(1,577,082)	(2,209,487)
Total comprehensive income (expense) for the year		–	–	284,381	(1,065,320)	148,534	1,330,035	–	697,630	–	(951,722)	(254,092)
Equity settled share-based transactions		–	(3,258)	–	–	–	2,460	30,658	29,860	(29,772)	12,721	12,809
Acquisition of additional interests in subsidiaries	49(a)(ii) & (iii), 51	–	(247,513)	–	–	–	–	–	(247,513)	–	(101,752)	(349,265)
Contribution from parent		–	–	–	–	–	–	31,200	31,200	–	–	31,200
Capital contribution made to subsidiaries		–	–	–	–	–	–	–	–	–	67,571	67,571
At 31 December 2011		3,594,500	852,780	1,018,751	(472,602)	213,414	7,487,034	94,324	12,788,201	22,890	10,643,732	23,454,823

Notes:

(a) Capital reserve

The capital reserve balance as at 1 January 2010 represents the difference between the nominal value of the shares of the subsidiaries acquired prior to 1 January 2010 and the nominal value of the shares issued by the Company as the consideration for acquisition. The capital reserve movements during the years ended 31 December 2011 and 2010 represents the net changes of the Group's interests in, and non-controlling interests' share, of the carrying amounts of subsidiaries as a result of reorganisation and/or privatisation.

(b) Exchange reserve

The exchange reserve is comprised of all foreign exchange differences arising from the translation of the financial statements of the operations outside Hong Kong into the Group presentation currency. The reserve is dealt with in accordance with the accounting policies set out in note 3.

(c) Fair value reserve

The fair value reserve is comprised of the cumulative net changes in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 3.

(d) Revaluation reserve

The revaluation reserve represents the restatement of fair value of property arising from the additional acquisition of Taiping General Insurance Company Limited ("TPI") relating to previously held interest in TPI as an associate, and the restatement of carrying amount of certain properties to fair value on transfer from land and building to investment properties.

(e) Other reserves

Other reserves comprise capital contribution reserve and shares held for share award scheme of subsidiaries.

The capital contribution reserve represents the imputed interest on loan from the ultimate holding company calculated with reference to Hong Kong Accounting Standards 39 “Financial instruments: Recognition and measurement” and deemed contribution through transferring of amount due from a group company at a discount by the immediate holding company.

The shares held for share award scheme of subsidiaries is the consideration paid, including any directly attributable incremental costs for purchase of share of subsidiaries under the share award scheme of subsidiaries adopted on 10 September 2007.

(f) Employee share-based compensation reserve

The employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unexercised share options and unvested awarded shares granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	2011 HK$'000	2010 HK$'000
Operating activities			
Profit before taxation		2,273,166	3,563,809
Adjustments for:			
Amortisation of prepaid lease payments		8,148	13,195
Amortisation of intangible assets		141	–
Changes in fair value of investment properties		(1,342,952)	(438,548)
Depreciation		332,168	324,425
Dividend income		(348,132)	(458,396)
Employee share-based compensation benefits		12,809	31,671
Finance costs		635,063	405,687
Interest on securities sold under repurchase agreements		252,523	111,146
Net impairment loss recognised in profit or loss		772,447	192,361
Interest income		(5,829,315)	(3,982,448)
Net gain on disposal of associates		(386,158)	–
Net gain on disposal of completed properties held for sale		(741)	–
Net gain on disposal of property, plant and equipment		(36)	(205)
Net gain on disposal of investment properties		(16,329)	(4,728)
Net realised and unrealised gain on investments in held-to-maturity and available-for-sale securities		(54,285)	(1,477,673)
Change in fair value on derivative financial instruments		(54,264)	(9,610)
Net realised loss on derivative financial instruments		65,941	68,194
Share of results of associates		(30,619)	(17,375)
Share of result of a jointly controlled entity		(9)	–
Gain on disposal of a subsidiary	41	–	(1,263,113)
Operating loss before changes in working capital		(3,710,434)	(2,941,608)
Increase in insurance debtors		(672,835)	(295,808)
Increase in other debtors		(124,691)	(1,445,134)
Decrease (increase) in held-for-trading securities		369,618	(227,787)
Increase in securities designated at fair value through profit or loss		(27,464)	(34,195)
Increase in insurance creditors		1,070,451	314,382
Increase in other creditors and accrued charges		357,709	491,878
Increase in reinsurers' share of insurance contract provisions		(524,401)	(215,183)
Decrease in policyholder account assets in respect of unit-linked products		1,180,156	345,397
Increase in life insurance contract liabilities		27,180,640	27,376,277
Increase in unearned premium reserve		667,318	947,711
Increase in outstanding claims reserve		1,621,899	1,205,296
Decrease in investment contract liabilities		(6,558,881)	(103,696)
(Decrease) increase in insurance protection fund		(16,417)	28,170
Cash generated from operations		20,812,668	25,445,700
Income tax paid		(354,335)	(127,265)
Net cash generated from operating activities		20,458,333	25,318,435

	NOTE	2011 HK$'000	2010 HK$'000
Dividend received		348,132	458,396
Interest received		5,415,641	3,300,657
Proceeds from disposals of property, plant and equipment		2,118	23,694
Payments for acquisition of investment properties		(164,543)	(223,702)
Proceeds from disposals of investment properties		39,194	47,855
Proceeds from disposals of properties held for sale		981	–
Increase in amounts due from group companies		(322,924)	(135,189)
Increase in statutory deposits		(880,287)	(278,928)
Decrease in pledged deposits at banks		(26,564)	(57,040)
Decrease in deposits at banks with original maturity more than three months		(6,077,836)	(4,691,608)
Payments for acquisition of property, plant and equipment		(265,977)	(346,357)
Payments for acquisition of prepaid lease payments		(52,976)	–
Payments for acquisition of intangible assets		(3,524)	–
Payments for construction costs incurred		(192,148)	(260,443)
Payments for purchase of investments in securities and debt securities classified as loans and receivables		(49,795,331)	(58,414,691)
Payment for acquisition of a jointly controlled entity		(180)	–
Proceeds from disposals of investments in securities		21,549,436	32,489,721
Increase in securities purchased under resale agreements		(65,808)	(32,561)
Interest paid on derivative financial instruments		(65,941)	(68,194)
Dividend from associates		11,995	11,581
Proceeds from disposal of an associate		397,289	–
Capital distribution from an associate		7,757	13,983
Cost of disposal of a subsidiary	41	–	(2,303)
Net cash inflow (outflow) from disposal of a subsidiary	41	1,267,914	(124,786)
Net cash used in investing activities		(28,873,582)	(28,289,915)
Increase in securities sold under repurchase agreements		9,788,909	2,994,453
Capital contributed by non-controlling interests of subsidiaries		67,571	–
Increase in amount due to group companies		45,048	–
Payment for acquiring additional interest in subsidiaries		(110,832)	–
Interest paid		(602,908)	(362,169)
Proceeds from sales of interest of a subsidiary		54,647	–
Interest on securities sold under repurchase agreements		(252,523)	(111,146)
Proceeds from interest-bearing notes issued		370,050	4,348,166
(Decrease) increase in bank and other borrowings		(398,188)	175,029
Proceeds received in respect of issue of shares		–	94,500
Net cash generated from financing activities		8,961,774	7,138,833
Effect of change in exchange rates		1,475,400	270,053
Net increase in cash and cash equivalents		2,021,925	4,437,406
Cash and cash equivalents at 1 January	29	17,952,585	13,515,179
Cash and cash equivalents at 31 December, represented by bank balances and cash	29	19,974,510	17,952,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1. General

The Company is a private limited company incorporated in Hong Kong. Its immediate and ultimate holding company is China Taiping Insurance Group Co. ("TPG"), which is incorporated in the People's Republic of China (the "PRC"). The address of the registered office and principal place of business of the Company is 22/F., China Taiping Tower Phase 1, 8 Sunning Road, Causeway Bay, Hong Kong.

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

The Company is an investment holding company. The Company's subsidiaries are mainly engaged in life insurance business, property and casualty insurance business, reinsurance business and other businesses which comprise asset management business, insurance intermediary business, pension business and property development business. Details of the principal activities of the Company's subsidiaries are set out in note 51.

The consolidated financial statements are not statutory accounts and are prepared in accordance with the requirement of Hong Kong Accounting Standard 27 (Revised) Consolidated and Separate Financial Statements and for the management purposes only.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

New and revised standards, amendments and interpretations applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC) – INT 14	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of financial assets[1]
	Disclosures – Offsetting financial assets and financial liabilities[2]
	Mandatory effective date of HKFRS 9 and transition disclosures[3]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[5]
Amendments to HKAS 12	Deferred tax – Recovery of underlying assets[4]
HKAS 19 (as revised in 2011)	Employee benefits[2]
HKAS 27 (as revised in 2011)	Separate financial statements[2]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[6]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKFRS 7 Disclosures – Transfers of financial assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting financial assets and financial liabilities and amendments to HKFRS 7 Disclosures – Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9, as amended, will be effective for annual periods beginning on or after 1 January 2015, with early adoption permitted. The Group is considering the implications of HKFRS 9, the impact on the Group and timing of its adoption by the Group. The directors anticipate that the application of the new Standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in joint ventures and HK(SIC) – INT 13 "Jointly controlled entities – Non-monetary contributions by venturers". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to HKAS 12 in future accounting periods may have effect on the consolidated financial statements of the Group. The directors are still in the process of assessing the impact of the adoption of the amendments

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 Deferred tax – Recovery of underlying assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to HKAS 12 in future accounting periods may have effect on the consolidated financial statements of the Group. The directors are still in the process of accessing the impact of the adoption of the amendments.

3. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for goods.

The principal accounting policies set out below.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance effective from 1 January 2010 onwards.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

On acquisition of additional interest in subsidiaries, the difference between the cost of additional interest acquired and decrease in the carrying amount of the non-controlling interest is recorded in capital reserve.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When certain assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

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

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of non-financial assets other than goodwill below).

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on non-financial assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 “Non-current assets held for sale and discontinued operations”) or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 “Financial instruments: Recognition and measurement”). Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

Gross premiums written from insurance contracts

The accounting policies for the recognition of revenue from insurance contracts are disclosed in the sub-section under the heading "recognition and measurement of contracts" in note 3.

Policy fee income from investment contracts

Fees from investment contracts or investment components of insurance contracts are recognised as revenue in the period in which the services are provided.

Rental income from operating leases

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

Dividend income

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Reinsurance commission income

Reinsurance commission income is recognised as income on the effective commencement or renewal dates of the related reinsurance contracts.

Securities commission and brokerage income

Securities commission and brokerage income is recorded as income, on a trade date basis, when the services are rendered.

Income from asset and property management, insurance intermediary and pension administration businesses

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

Interest income

Interest income from a financial asset including financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurements" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the net investment income in note 7. Fair value is determined in the manner described in note 45.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amounts due from group companies, other debtors, statutory deposits, pledged bank deposits and deposits at banks with original maturity more than three months and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in fair value reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, other debtors and amounts due from group companies, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered to be uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in fair value reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instrument issued by the Group are recognised at proceeds received, net of direct issue cost.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liabilities are either held for trading or it is those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The gains or losses recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including bank loans and other borrowings, interest-bearing notes and other creditors are subsequently measured at amortised cost, using the effective interest method.

Sales and repurchase/purchase and resale agreements

Securities sold under repurchase agreements represent short-term financing arrangements secured by the securities sold. The securities remain on the consolidated statement of financial position and a liability is recorded in respect of the consideration received. Interest is calculated based upon the effective interest method. The securities sold under repurchase agreements are carried in the consolidated statement of financial position at amortised cost.

Securities purchased under resale agreements represent short-term lending arrangements secured by the securities purchased. The securities purchased are not recognised as financial assets on the consolidated statement of financial position and the consideration paid is recorded as securities purchased under resale agreements and carried in the consolidated statement of financial position at amortised cost. Interest is calculated using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

Leasehold land and buildings originally classified as investment properties under construction carried at fair value are transferred to construction in progress at a deemed cost equal to their fair value at the date of change in use.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Properties in the course of construction for administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating leases payments are recognised as expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Impairment losses on non-financial assets other than goodwill (see the accounting policies in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Cash and cash equivalents

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

When the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Shares held for share award scheme of subsidiaries

Where the shares of subsidiaries are acquired under the share award scheme of subsidiaries, the consideration paid, including any directly attributable costs, is presented as "other reserves" and deducted from total equity.

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

Where the shares held for share award scheme are revoked and the revoked shares are disposed of the related gain or loss is transferred to retained profits, and no gain or loss is recognised in the profit or loss.

Where the cash or non-cash dividend distribution is declared in respect of the shares held for share award scheme, the cash or fair value of the non-cash dividend is transferred to retained profits, and no gain or loss is recognised in the profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Assets classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Classification of contracts

Insurance contracts

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

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

Some contracts of the Group have both the insurance and investment components. These contracts are required to be unbundled into the respective components as disclosed in the sub-section under the heading "Unbundling" in note 3.

Investment contracts

Insurance policies that are not considered insurance contracts under HKFRS 4 are classified as investment contracts, which will be accounted for under HKAS 39.

Recognition and measurement of contracts

Recognition of gross premiums written

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

Gross premiums written in respect of life insurance contracts are recognised as revenue when due from policyholders. Gross premiums written from short-term accident and health insurance contracts are recognised when written.

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

Gross premiums written in respect of investment contracts and the investment component of unbundled contracts are accounted for as deposits and booked directly to a liability account.

Life insurance contract liabilities

Life insurance contract liabilities, other than universal life and unit-linked insurance contracts, are determined using a gross premium approach plus a residual margin. Under the gross premium approach, the assumptions used in the actuarial valuation of life insurance contract liabilities reflect the management's assessment of the expected best estimate of future policy cash flows subject to market based allowance for risk. The residual margin is estimated so that, after considering the effects of acquisition costs related to the acquisition of new business, including but not limited to commissions, underwriting, marketing and policy issue expenses, no gain or loss will be recognised on the initial recognition of the life insurance contract. Profits are expected to emerge over the life of the insurance contracts as the residual margins are released over the life of the contracts in proportion to insurance policies in force and allowance for risk is released.

Unearned premium reserve

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

Outstanding claims reserve

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

Liability adequacy test

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

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

Investment contract liabilities

Investment contract liabilities of the Group include the liabilities arising from investment contracts that carry no significant insurance risk and also investment components of universal life contracts and unit-linked contracts. Insurance policies which do not meet the definition of an insurance contract are investment contracts and are carried at amortised cost or estimated fair value.

The liability of investment portion of an unbundled universal life contract is measured at amortised cost using effective interest rate while the liability of investment portion of an unbundled unit-linked contract is measured at fair value. The liability for the insurance component is calculated as the excess, if positive, of a gross premium liability over the account value. The liabilities of the insurance component of universal life contracts and unit-linked contracts are minimal and accordingly, the entire contracts are classified as investment contracts.

The assets related to unit-linked contracts are presented as "policyholder account assets in respect of unit-linked products" and are segregated from the rest of the Group's assets for presentation purpose.

Policyholders' benefits

Policyholders' benefits include maturities, annuities, surrenders, claims and claims handling expenses, and policyholder dividend allocated in anticipation of a dividend declaration. Maturity and annuity claims are recognised as an expense when due for payment. Surrender claims are recognised when paid. Claims are recognised when notified but not settled and an estimate is made for claims incurred but not reported at the reporting date and related claims handling expenses. Policyholder dividends are recognised when declared.

Embedded derivatives in insurance contracts

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

Unbundling

The Group unbundles the investment component of insurance contracts when the Group can measure separately the investment component. Receipts and payments such as premiums, policy benefits and claims relating to the investment component, except for the policy fee income which is recognised in accordance with HKAS 18, are not recognised in the consolidated statement of comprehensive income but as financial assets and financial liabilities. The financial assets or financial liabilities arising from the investment component are accounted for under HKAS 39.

Insurance debtors

Insurance debtors are initially recognised at fair value and thereafter stated at amortised cost using effective interest rate method less allowance for impairment. The impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material. The carrying amount is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an insurance debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Insurance creditors

Insurance creditors are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method.

Reinsurance

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

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

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing cost are recognised in profit or loss in the year in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Provisions and contingent liabilities

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

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

4. Insurance, financial and capital risk management

Risk management objectives and policies for mitigating insurance risk

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

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

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

Underwriting strategy

Life insurance business

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

Property and casualty insurance business

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

Reinsurance business

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

Reinsurance strategy

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

Asset and liability matching

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

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

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

Reserves adequacy

The Group exercises great care and effort in setting up the reserves for its reinsurance and property and casualty insurance businesses. The reserves are estimated by the Group, using actuarial methods such as loss development methods and/or the Bornhuetter-Ferguson methods. The adequacy of reserves is regularly reviewed.

The determination of the Group's reserves for its life insurance business are based on realistic assumptions of mortality and morbidity rates, returns on investment, persistency rates and policy maintenance expenses after reasonable and prudent adjustments for adverse deviation to ensure adequacy of reserves on a going concern basis.

Insurance risks

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

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

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

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

Property and casualty insurance business

(1) Management of risks

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

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

(2) Concentration of insurance risks

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

The concentration of insurance risk by classes of business and geographical distribution, with reference to the gross premiums written in the years ended 31 December 2011 and 2010, are summarised below.

	Percentage to total gross premiums written	
	2011	**2010**
By business line:		
Motor insurance	67.2%	70.4%
Marine insurance	4.0%	4.1%
Others	28.8%	25.5%
	100.0%	100.0%
By geographical territory:		
Hong Kong and Macau	13.9%	11.2%
The PRC	78.6%	82.7%
Rest of Asia	4.7%	3.9%
Europe	2.0%	1.7%
Others	0.8%	0.5%
	100.0%	100.0%

Reinsurance business

(1) Management of risks

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

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

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

(2) Concentration of insurance risks

Concentration of risk arises from the accumulation of risks within a particular business line and geographic area. The Group's key methods in managing these risks are diversification of the business line and areas where the gross premiums are written. The tables below indicate the gross premiums written by business line and geographical distribution for the years ended 31 December 2011 and 2010.

	Percentage to total gross premiums written	
	2011	**2010**
By business line:		
Proportional treaty	68.2%	65.5%
Non-proportional treaty	24.3%	25.6%
Facultative	7.5%	8.9%
	100.0%	100.0%
By geographical territory:		
Hong Kong and Macau	20.6%	13.3%
Mainland China & Taiwan	37.1%	40.1%
Japan	5.3%	6.2%
Rest of Asia	19.7%	22.2%
Europe	11.4%	10.8%
Others	5.9%	7.4%
	100.0%	100.0%

Life insurance business

(1) Management of risks

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

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

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

(2) Concentration of insurance risks

Concentration risk is the risk of incurring a major loss as a result of significant mortality or other insurance coverage on a particular person or a group of persons due to the same event. The Group manages the concentration of insurance risks by way of reinsurance arrangements with a maximum retention risk of RMB500,000 per person for life and personal accident policies and RMB200,000 for critical illness insurance. In addition, the Group purchases catastrophe protection for losses arising from claims involving multiple lives from the same event. The maximum retention risk is RMB1 million for each and every loss occurrence, and the total coverage is RMB80 million for each and every loss occurrence. The Group purchases surplus treaties and proportional treaties to cover life, accident and long term health risks. In addition, an excess of loss reinsurance contract is applied for any reinsurance contract with significant sum insured.

The distribution of sum insured is summarised as follows:

	Before reinsurance		**After reinsurance**	
RMB'000	**31.12.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**
0 – 200	98.04%	98.50%	98.27%	98.64%
201 – 500	1.71%	1.22%	1.73%	1.36%
501 – 750	0.06%	0.06%	–	–
751 – 1,000	0.13%	0.11%	–	–
1,001 – 1,500	0.03%	0.02%	–	–
1,501 – 2,000	0.02%	0.02%	–	–
2,001 – 2,500	–	–	–	–
> 2,500	0.01%	0.07%	–	–
	100.00%	100.00%	100.00%	100.00%

Financial risk management objectives and policies

Categories of financial instruments and insurance assets and liabilities

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	60,439,387	45,228,860
Held-to-maturity investments	83,755,934	62,964,533
Available-for-sale investments	36,966,163	36,476,144
Financial assets at fair value through profit or loss:		
– Included in "policyholder account assets in respect of unit-linked products"	2,314,413	3,335,019
– Held-for-trading investments	689,346	1,058,964
– Designated as fair value through profit or loss	198,761	171,297
Financial liabilities		
Derivative financial instruments	45,005	99,269
Financial liabilities at fair value through profit or loss		
Included in "investment contract liabilities"	3,729,117	4,909,273
Amortised cost	66,104,553	58,613,215
Insurance assets		
Insurance debtors	2,270,066	1,591,375
Reinsurer's share of insurance contract provision	3,016,740	2,452,076
Insurance liabilities		
Life insurance contract liabilities	91,195,983	60,391,614
Unearned premium reserve	5,326,736	4,510,015
Outstanding claims reserve	10,539,544	8,783,140
Insurance creditors	3,128,129	2,057,678

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

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

Market risk

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

Interest rate risk

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

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

Fair value interest rate risk

The Group is exposed to fair value interest rate risk relating to the interest rate swaps and fixed-rate debt investments.

Sensitivity analysis

As at 31 December 2011, it is estimated that an increase/decrease of 100 basis points in interest rates of the interest rate swaps, with all other variable held constant, would increase/decrease the Group's post-tax profit for the year by approximately HK$14,634,000 (31.12.2010: HK$33,051,000).

An increase/decrease of 50 basis points in interest rates of the debt investments classified as available-for-sale with all other variables held constant, would decrease/increase the Group's total equity by approximately 0.5% of the total investments held by the Group as at 31 December 2011 (31.12.2010: 0.5%).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The basis point increase or decrease as stated above is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate. The analysis is performed on the same basis for 2010.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank loans and bank saving deposits. The cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's bank loans and bank saving deposits. The Group has entered into several interest rate swaps to reduce the cash flow interest rate risk. The management considers that the cash flow interest rate risk is not material. Accordingly, no sensitivity analysis has been presented on the cash flow interest rate risk.

Equity price risk

The Group has a portfolio of marketable equity securities, which is carried at fair value and is exposed to price risk. As the financial risks of unit-linked contracts were fully undertaken by the policyholders, the assets related to unit-linked products are not included in the analysis of financial risks below. This risk is defined as the potential loss in market value resulting from an adverse change in prices. The Group manages the equity price risk by investing in a diverse portfolio of high quality and liquid securities.

Sensitivity analysis

The sensitivity analyses below are determined based on the exposure to equity price risks at the reporting date. The analyses is performed without taking into account the corresponding impact of participation features of life insurance contracts and unit-linked insurance contracts.

If the prices of the respective equity securities and investment funds had been 10% (2010: 10%) higher/lower:

- pre-tax profit for the year ended 31 December 2011 increase/decrease by HK$31,607,000 (2010: HK$44,139,000) as a result of the changes in fair values of securities designated at fair value through profit or loss and held-for-trading investments; and

- fair value reserve would increase/decrease by HK$1,213,438,000 (2010: HK$1,440,813,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Foreign exchange risk

In respect of the life insurance business and property and casualty insurance business in the PRC, premiums are received in RMB and the insurance regulation in the PRC requires the insurers to hold RMB assets, therefore the foreign exchange risk in respect of RMB for the Group's PRC operations is not significant. The capital injections from the shareholders outside the PRC were in the Hong Kong dollars and the United States dollars.

In respect of the property and casualty insurance business operating in Hong Kong, Singapore, Macau, the United Kingdom, the Netherlands and New Zealand, premiums are mainly received in the relevant domestic currencies. The Group strives to keep the assets in the same currencies with its insurance liabilities.

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

Monetary items of the entities of the Group are mostly denominated in their respective functional currencies. Therefore, the management considers that the foreign exchange risk is not material. Accordingly, no sensitivity analysis is presented.

Credit risk

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

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

The carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position after deducting any impairment allowance represent the maximum exposure to credit risk, which will cause a financial loss to the Group, in the event of the counterparties' failure to discharge their obligations at the end of the reporting period.

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

The credit risk on bank balances is limited because the relevant banks are with high credit ratings.

The credit risk associated with insurance debtors and other debtors will not cause a material impact on the Group's consolidated financial statements taking into consideration the collateral held and maturity term of not more than one year as at 31 December 2011.

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

Liquidity risk

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

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

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

The following table details the Group's remaining contractual obligation for its financial and insurance liabilities based on the agreed repayment terms, except for investment contract liabilities which are based on expected maturity dates. For non-derivative liabilities, the table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and includes both interest and principal cash flows. For derivative instruments which are settled on a net basis, undiscounted net cash outflows are presented. The table excludes life insurance contract liabilities as assuming that all surrender and transfer options are exercised would result in all life insurance contracts being presented as falling due within one year or less.

Liquidity and interest risk tables

	Weighted average effective interest rate	Repayable on demand or 1 year or less	5 years or less but over 1 year	After 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011						
Non-derivative liabilities						
Financial liabilities:						
Investment contract liabilities	–	3,574,705	8,660,706	29,718,666	41,954,077	31,368,490
Securities sold under repurchase agreements	1.79%	19,645,617	–	–	19,645,617	19,618,855
Interest-bearing notes	5.23%	578,085	6,026,378	9,031,037	15,635,500	11,040,734
Bank loans and other borrowings	3.04%	9,660	4,194,000	–	4,203,660	3,729,632
Other creditors	–	4,030,911	–	–	4,030,911	4,030,911
Amounts due to group companies	–	45,048	–	–	45,048	45,048
Insurance liabilities:						
Insurance creditors	–	3,049,646	78,483	–	3,128,129	3,128,129
Outstanding claims reserve	–	6,199,236	3,482,676	857,632	10,539,544	10,539,544
		37,132,908	22,442,243	39,607,335	99,182,486	83,501,343
Derivatives settled net						
Interest rate swaps		26,141	18,864	–	45,005	45,005

	Weighted average effective interest rate	Repayable on demand or 1 year or less	5 years or less but over 1 year	After 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2010
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010						
Non-derivative liabilities						
Financial liabilities:						
Investment contract liabilities	–	2,377,293	7,823,156	50,726,552	60,927,001	36,278,241
Securities sold under repurchase agreements	1.35%	9,829,946	–	–	9,829,946	9,829,946
Interest-bearing notes	5.25%	537,669	5,177,689	9,356,959	15,072,317	10,231,074
Bank loans and other borrowings	2.92%	1,886,200	2,609,635	–	4,495,835	4,127,820
Other creditors	–	3,055,407	–	–	3,055,407	3,055,407
Insurance liabilities:						
Insurance creditors	–	1,990,786	66,892	–	2,057,678	2,057,678
Outstanding claims reserve	–	5,368,184	2,517,401	897,555	8,783,140	8,783,140
		25,045,485	18,194,773	60,981,066	104,221,324	74,363,306
Derivatives settled net						
Interest rate swaps		3,600	95,669	–	99,269	99,269

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

Claims development

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

In view of the different business nature, the claims development for the property and casualty insurance business is analysed by accident year, while those for the reinsurance business is analysed by underwriting year.

Property and casualty insurance business

Analysis of claims development – gross of reinsurance

For the year ended 31 December 2011

	Accident year					
	2007	**2008**	**2009**	**2010**	**2011**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	3,233,951	5,170,260	4,689,103	5,332,867	5,177,631	
One year later	2,999,327	4,717,827	4,789,600	4,192,019	–	
Two years later	2,922,690	4,800,452	4,185,465	–	–	
Three years later	2,919,892	4,333,435	–	–	–	
Four years later	2,796,867	–	–	–	–	
Estimate of cumulative claims	2,796,867	4,333,435	4,185,465	4,192,019	5,177,631	20,685,417
Cumulative payments to date	(2,620,632)	(3,962,677)	(3,539,387)	(3,121,684)	(2,114,486)	(15,358,866)
Estimate of claims expenses and discount	–	–	–	–	25,408	25,408
Liabilities recognised in the consolidated statement of financial position.	176,235	370,758	646,078	1,070,335	3,088,553	5,351,959
Liabilities in respect of accident years 2006 and before						510,933
Provision for adverse deviation						91,792
Total liabilities included in the consolidated statement of financial position						5,954,684

For the year ended 31 December 2010

	Accident year					
	2006	2007	2008	2009	2010	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	2,695,857	3,233,951	5,170,260	4,689,103	5,332,867	
One year later	2,410,820	2,999,327	4,717,827	4,789,600	–	
Two years later	2,449,494	2,922,690	4,800,452	–	–	
Three years later	2,465,797	2,919,892	–	–	–	
Four years later	2,506,134	–	–	–	–	
Estimate of cumulative claims	2,506,134	2,919,892	4,800,452	4,789,600	5,332,867	20,348,945
Cumulative payments to date	(2,355,103)	(2,607,497)	(4,216,582)	(3,696,055)	(2,248,208)	(15,123,445)
Estimate of claims expenses and discount	–	–	–	–	159,979	159,979
Liabilities recognised in the consolidated statement of financial position.	151,031	312,395	583,870	1,093,545	3,244,638	5,385,479
Liabilities in respect of accident years 2005 and before						415,465
Provision for adverse deviation						136,313
Eliminated on disposal						(497,953)
Total liabilities included in the consolidated statement of financial position						5,439,304

Analysis of claims development – net of reinsurance

For the year ended 31 December 2011

	Accident year					
	2007	2008	2009	2010	2011	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	2,390,124	3,746,162	3,921,099	4,440,974	4,194,207	
One year later	2,221,165	3,544,968	4,044,969	3,493,723	–	
Two years later	2,234,817	3,578,536	3,505,709	–	–	
Three years later	2,253,421	3,309,446	–	–	–	
Four years later	2,199,861	–	–	–	–	
Estimate of cumulative claims	2,199,861	3,309,446	3,505,709	3,493,723	4,194,207	16,702,946
Cumulative payments to date	(2,077,305)	(3,040,768)	(3,035,212)	(2,680,757)	(1,892,128)	(12,726,170)
Estimate of claims expenses and discount	–	–	–	–	25,408	25,408
Liabilities recognised in the consolidated statement of financial position.	122,556	268,678	470,497	812,966	2,327,487	4,002,184
Liabilities in respect of accident years 2006 and before						371,306
Provision for adverse deviation						46,203
Total liabilities included in the consolidated statement of financial position						4,419,693

For the year ended 31 December 2010

	Accident year					
	2006	2007	2008	2009	2010	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	1,616,719	2,390,124	3,746,162	3,921,099	4,440,974	
One year later	1,585,204	2,221,165	3,544,968	4,044,969	–	
Two years later	1,523,359	2,234,817	3,578,536	–	–	
Three years later	1,534,698	2,253,421	–	–	–	
Four years later	1,548,950	–	–	–	–	
Estimate of cumulative claims	1,548,950	2,253,421	3,578,536	4,044,969	4,440,974	15,866,850
Cumulative payments to date	(1,449,335)	(2,035,266)	(3,183,900)	(3,234,102)	(1,960,709)	(11,863,312)
Estimate of claims expenses and discount	–	–	–	–	208,221	208,221
Liabilities recognised in the consolidated statement of financial position.	99,615	218,155	394,636	810,867	2,688,486	4,211,759
Liabilities in respect of accident years 2005 and before						94,962
Provision for adverse deviation						44,370
Eliminated on disposal						(403,293)
Total liabilities included in the consolidated statement of financial position						3,947,798

Reinsurance business

Analysis of claims development – gross of reinsurance

For the year ended 31 December 2011

	Underwriting year					
	2007	2008	2009	2010	2011	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	813,412	1,050,587	842,040	1,102,624	2,049,249	
One year later	1,157,883	1,343,934	1,444,193	2,141,938	–	
Two years later	1,199,548	1,293,801	1,285,906	–	–	
Three years later	1,163,480	1,146,645	–	–	–	
Four years later	1,066,009	–	–	–	–	
Estimate of cumulative claims	1,066,009	1,146,645	1,285,906	2,141,938	2,049,249	7,689,747
Cumulative payments to date	(883,291)	(899,094)	(820,253)	(865,240)	(160,392)	(3,628,270)
Liabilities recognised in the consolidated statement of financial position.	182,718	247,551	465,653	1,276,698	1,888,857	4,061,477
Liabilities in respect of underwriting years 2006 and before						219,729
Total liabilities included in the consolidated statement of financial position (note).						4,281,206

Note: Excluding the claims liabilities for the life reinsurance business.

For the year ended 31 December 2010

	Underwriting year					
	2006	2007	2008	2009	2010	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	617,028	813,412	1,050,587	842,040	1,102,624	
One year later	928,909	1,157,883	1,343,934	1,444,193	–	
Two years later	885,898	1,199,548	1,293,801	–	–	
Three years later	862,930	1,163,480	–	–	–	
Four years later	817,351	–	–	–	–	
Estimate of cumulative claims	817,351	1,163,480	1,293,801	1,444,193	1,102,624	5,821,449
Cumulative payments to date	(679,117)	(840,548)	(798,784)	(573,242)	(31,361)	(2,923,052)
Liabilities recognised in the consolidated statement of financial position.	138,234	322,932	495,017	870,951	1,071,263	2,898,397
Liabilities in respect of underwriting years 2005 and before						221,490
Total liabilities included in the consolidated statement of financial position *(note)*						3,119,887

Note: Excluding the claims liabilities for the life reinsurance business.

Analysis of claims development – net of reinsurance

For the year ended 31 December 2011

	Underwriting year					
	2007	2008	2009	2010	2011	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	752,167	922,454	788,175	1,044,956	1,744,919	
One year later	994,736	1,172,974	1,312,205	1,874,500	–	
Two years later	1,042,789	1,128,945	1,150,550	–	–	
Three years later	1,021,230	995,722	–	–	–	
Four years later	929,961	–	–	–	–	
Estimate of cumulative claims	929,961	995,722	1,150,550	1,874,500	1,744,919	6,695,652
Cumulative payments to date	(767,994)	(763,028)	(762,420)	(818,308)	(161,412)	(3,273,162)
Liabilities recognised in the consolidated statement of financial position.	161,967	232,694	388,130	1,056,192	1,583,507	3,422,490
Liabilities in respect of underwriting years 2006 and before						196,049
Total liabilities included in the consolidated statement of financial position *(note)*						3,618,539

Note: Excluding the claims liabilities for the life reinsurance business.

For the year ended 31 December 2010

	Underwriting year					
	2006	2007	2008	2009	2010	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	568,075	752,167	922,454	788,175	1,044,956	
One year later	849,375	994,736	1,172,974	1,312,205	–	
Two years later	807,483	1,042,789	1,128,945	–	–	
Three years later	788,861	1,021,230	–	–	–	
Four years later	743,093	–	–	–	–	
Estimate of cumulative claims	743,093	1,021,230	1,128,945	1,312,205	1,044,956	5,250,429
Cumulative payments to date	(612,904)	(732,869)	(672,373)	(539,777)	(36,552)	(2,594,475)
Liabilities recognised in the consolidated statement of financial position.	130,189	288,361	456,572	772,428	1,008,404	2,655,954
Liabilities in respect of underwriting years 2005 and before						195,508
Total liabilities included in the consolidated statement of financial position *(note)*						2,851,462

Note: Excluding the claims liabilities for the life reinsurance business.

5. Operating segments

For management purposes, the Group organises its businesses based on four operating segments as follows:

– Life insurance business;

– Property and casualty insurance business;

– Reinsurance business; and

– Other businesses which comprise the asset management business, insurance intermediary business, pension business, group life business and property development business.

Information regarding the above segments is reported below:

(a) Segmental profit or loss for the year ended 31 December 2011

	Life insurance	Property and casualty insurance	Reinsurance	Others businesses	Inter-segment elimination and adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue-Gross premiums written and policy fees	38,137,172	8,938,235	3,431,083	641,483	(41,919)	51,106,054
Less: Premium ceded to reinsures	(248,684)	(1,528,583)	(357,424)	(126,832)	–	(2,261,523)
Net premiums written and policy fees	37,888,488	7,409,652	3,073,659	514,651	(41,919)	48,844,531
Change in unearned premium reserve, net of reinsurance	84,562	(311,590)	(220,744)	(142,805)	–	(590,577)
Net earned premium and policy fees	37,973,050	7,098,062	2,852,915	371,846	(41,919)	48,253,954
Net investment income	4,973,223	514,942	276,439	350,615	(71,848)	6,043,371
Net realised and unrealised investment gains(losses) and impairment	(491,311)	85,695	(145,783)	1,119,514	(18,693)	549,422
Other income	135,970	102,908	12,562	1,382,092	(650,578)	982,954
	42,590,932	7,801,607	2,996,133	3,224,067	(783,038)	55,829,701
Benefits, loss and expenses						
Net policyholders' benefits	(6,182,005)	(3,756,016)	(2,131,552)	(134,575)	–	(12,204,148)
Net commission expenses	(3,452,910)	(414,826)	(812,319)	(41,476)	206,827	(4,514,704)
Change in life insurance contract liabilities, net of reinsurance	(27,039,277)	–	–	(119,424)	–	(27,158,701)
Administrative and other expenses	(5,136,992)	(2,922,240)	(85,581)	(1,133,072)	203,338	(9,074,547)
Total benefits, losses and expenses	(41,811,184)	(7,093,082)	(3,029,452)	(1,428,547)	410,165	(52,952,100)
Share of results of associates	247,618	–	–	30,044	(247,043)	30,619
Share of result of a jointly controlled entity	–	–	–	9	–	9
Finance costs	(432,171)	(54,802)	–	(148,090)	–	(635,063)
Profit before taxation	595,195	653,723	(33,319)	1,677,483	(619,916)	2,273,166
Income tax credit/(charge)	167,063	(102,694)	(60,873)	(332,376)	11,109	(317,771)
Profit/(loss) after taxation	762,258	551,029	(94,192)	1,345,107	(608,807)	1,955,395
Non-controlling interests						(625,360)
Profit attributable to owners						1,330,035

Segment revenue and segment profit (loss) represents the revenue and profit (loss) earned by each segment which is the measure reported to the management for the purpose of resource allocation and assessment of segment performance.

(b) Segmental statement of financial position as at 31 December 2011

	Life insurance	Property and casualty insurance	Reinsurance	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Statutory deposits	1,480,200	580,705	33,550	311,406	2,405,861
Property, plant and equipment	2,591,099	1,283,469	54,527	531,352	4,460,447
Investment properties	1,705,016	1,111,431	74,760	5,337,905	8,229,112
Prepaid lease payments	63,807	104,006	–	–	167,813
Goodwill	902,477	148,738	–	–	1,051,215
Intangible assets	–	264,791	–	–	264,791
Interests in associates	6,601	–	–	798,406	805,007
Interest in a jointly controlled entity	–	–	–	199	199
Construction in progress	43,730	68,253	–	–	111,983
Properties held for sale	–	–	–	9,400	9,400
Investments in securities	118,454,963	7,948,499	4,575,734	1,441,707	132,420,903
Securities purchased under resale agreements	–	–	111,015	8,264	119,279
Insurance debtors	741,285	782,595	678,171	68,015	2,270,066
Reinsurers' share of insurance contract provisions	168,772	2,016,109	765,141	66,718	3,016,740
Policyholder account assets in respect of unit-linked products	3,729,117	–	–	–	3,729,117
Other debtors	4,577,971	369,461	178,465	273,717	5,399,614
Amounts due from group companies	21,487	2,770	–	2,630,816	2,655,073
Tax recoverable	–	–	–	–	–
Deferred tax assets	–	43,745	107,553	7,978	159,276
Pledged bank deposits	–	52,368	187,677	16,000	256,045
Deposits at banks with original maturity more than three months	15,444,243	1,582,220	284,609	393,264	17,704,336
Cash and cash equivalents	12,634,722	3,035,762	1,063,173	3,240,853	19,974,510
Segment assets	162,565,490	19,394,922	8,114,375	15,136,000	205,210,787
Liabilities					
Life insurance contract liabilities	91,073,806	–	–	122,177	91,195,983
Unearned premium reserve	308,985	3,688,161	1,112,834	216,756	5,326,736
Outstanding claims reserve	227,012	5,954,683	4,286,130	71,719	10,539,544
Investment contract liabilities	30,945,350	–	–	423,140	31,368,490
Securities sold under repurchase agreements	19,002,105	616,750	–	–	19,618,855
Interest-bearing notes	8,819,525	863,450	–	1,357,759	11,040,734
Bank loans and other borrowings	–	–	–	3,729,632	3,729,632
Amounts due to group companies	21,194	11,530	543	11,781	45,048
Insurance creditors	1,218,156	1,597,408	100,798	211,767	3,128,129
Other creditors and accrued charges	1,607,936	1,071,854	74,590	1,276,531	4,030,911
Tax payable	16,338	137,922	154,427	54,361	363,048
Deferred tax liabilities	455,723	110,603	–	723,676	1,290,002
Insurance protection fund	12,143	14,511	–	7,193	33,847
Derivative financial instruments	–	–	–	45,005	45,005
Segment liabilities	153,708,273	14,066,872	5,729,322	8,251,497	181,755,964
Net assets					23,454,823
Employee share-based compensation reserve of a subsidiary					(22,890)
Non-controlling interests					(10,643,732)
Net assets attributable to owners of the Company					12,788,201

Segment assets and segment liabilities represent the asset/liabilities recorded by each segment which is the measure reported to the management for the purposes of resource allocation and assessment of segment performance.

(c) Segmental profit or loss for the year ended 31 December 2010

	Life insurance	Property and casualty insurance	Reinsurance	Others businesses	Inter-segment elimination and adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue-gross premiums written and policy fees	37,218,132	9,739,496	2,649,725	25,417	–	49,632,770
Less: Premiums ceded to reinsurers	(305,736)	(1,641,684)	(277,664)	–	–	(2,225,084)
Net premiums written and policy fees	36,912,396	8,097,812	2,372,061	25,417	–	47,407,686
Change in unearned premium reserve, net of reinsurance	(20,572)	(498,331)	(294,526)	(16,020)	–	(829,449)
Net earned premiums and policy fees	36,891,824	7,599,481	2,077,535	9,397	–	46,578,237
Net investment income	3,530,904	474,258	223,078	420,387	(220,795)	4,427,832
Net realised and unrealised investment gains and impairment	900,710	229,374	97,010	549,090	–	1,776,184
Other income	9,952	(21,448)	(26,790)	509,052	(306,859)	163,907
	41,333,390	8,281,665	2,370,833	1,487,926	(527,654)	52,946,160
Benefits, losses and expenses						
Net policyholders' benefits	(4,649,761)	(4,204,513)	(1,307,326)	(1,028)	–	(10,162,628)
Net commission expenses	(3,322,155)	(471,990)	(595,219)	(1,719)	182,987	(4,208,096)
Change in life insurance contract liabilities, net of reinsurance	(27,376,989)	–	–	–	–	(27,376,989)
Administrative and other expenses	(4,545,448)	(3,180,246)	(80,267)	(807,433)	103,955	(8,509,439)
Total benefits, losses and expenses	(39,894,353)	(7,856,749)	(1,982,812)	(810,180)	286,942	(50,257,152)
Share of results of associates	163	–	–	17,212	–	17,375
Gain on disposal of a subsidiary	–	–	–	1,263,113	–	1,263,113
Finance costs	(222,733)	(52,115)	–	(130,621)	(218)	(405,687)
Profit before taxation	1,216,467	372,801	388,021	1,827,450	(240,930)	3,563,809
Income tax charge	(127,544)	13,624	(15,367)	(118,491)	(83,362)	(331,140)
Profit after taxation	1,088,923	386,425	372,654	1,708,959	(324,292)	3,232,669
Non-controlling interests						(1,565,796)
Profit attributable to owners						1,666,873

Segment revenue and segment profit represents the revenue and profit earned by each segment which is the measure reported to the management for the purpose of resource allocation and assessment of segment performance.

Included in the revenue-gross premiums written and policy fees and segment profit of property and casualty insurance business are gross premiums of HK$1,919,273,000 and segment loss of HK$80,806,000 respectively, related to The Ming An Insurance Company (China) Limited ("MAC") over which the Group has lost control as at 31 December 2010.

(d) Segmental statement of financial position as at 31 December 2010

	Life insurance	Property and casualty insurance	Reinsurance	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Statutory deposits	883,339	421,749	26,418	194,068	1,525,574
Property, plant and equipment	2,203,520	1,253,237	56,297	289,174	3,802,228
Investment properties	–	1,015,855	70,920	3,726,416	4,813,191
Prepaid lease payments	592,520	101,231	–	–	693,751
Goodwill	902,477	148,738	–	–	1,051,215
Intangible asset	–	261,408	–	–	261,408
Interests in associates	6,027	–	–	780,345	786,372
Construction in progress	122,457	–	–	584,763	707,220
Properties held for sale	–	–	–	240	240
Investments in securities	92,444,568	6,984,287	4,151,925	1,199,762	104,780,542
Securities purchased under resale agreements	–	–	–	53,471	53,471
Insurance debtors	486,027	598,466	506,692	190	1,591,375
Reinsurers' share of insurance contract provisions	171,449	1,931,622	349,005	–	2,452,076
Policyholder account assets in respect of unit-linked products	4,909,273	–	–	–	4,909,273
Other debtors	4,342,842	240,762	122,497	1,416,566	6,122,667
Amounts due from group companies	–	7,694	–	2,293,255	2,300,949
Tax recoverable	–	1,008	–	2,149	3,157
Deferred tax assets	–	80,964	64,411	7,998	153,373
Pledged bank deposits	–	52,868	160,613	16,000	229,481
Deposits at banks with original maturity more than three months	10,546,453	955,218	124,829	–	11,626,500
Cash and cash equivalents	12,334,951	3,043,643	1,217,662	1,356,329	17,952,585
Asset classified as held for sale	–	–	–	11,131	11,131
Segment assets	129,945,903	17,098,750	6,851,269	11,931,857	165,827,779
Liabilities					
Life insurance contract liabilities	60,391,614	–	–	–	60,391,614
Unearned premium reserve	399,683	3,223,782	870,133	16,417	4,510,015
Outstanding claims reserve	218,737	5,439,304	3,124,689	410	8,783,140
Investment contract liabilities	36,246,249	–	–	31,992	36,278,241
Securities sold under repurchase agreements	9,829,946	–	–	–	9,829,946
Interest-bearing notes	8,049,983	822,626	–	1,358,465	10,231,074
Bank loans and other borrowings	–	–	–	4,127,820	4,127,820
Insurance creditors	823,857	1,099,800	64,792	69,229	2,057,678
Other creditors and accrued charges	1,414,191	1,028,970	81,965	530,281	3,055,407
Tax payable	176,901	226,681	91,773	6,017	501,372
Deferred tax liabilities	1,410,510	91,192	1,721	461,916	1,965,339
Insurance protection fund	32,151	17,845	–	268	50,264
Derivative financial instruments	–	–	–	99,269	99,269
Segment liabilities	118,993,822	11,950,200	4,235,073	6,702,084	141,881,179
Net assets					23,946,600
Employee share-based compensation reserve of a subsidiary					(52,662)
Non-controlling interests					(11,616,914)
Net assets attributable to owners of the Company					12,277,024

Segment assets and segment liabilities represent the asset/liabilities recorded by each segment which is the measure reported to the management for the purposes of resource allocation and assessment of segment performance.

6. Gross premiums written and policy fees

Revenue represents gross premiums written and policy fee from life insurance business, property and casualty insurance business, reinsurance business and other businesses. The amount of each significant category of revenue recognised during the year is as follows:

	2011	2010
	HK$'000	*HK$'000*
Gross premiums written		
Life insurance	37,928,838	37,033,658
Property and casualty insurance	8,938,235	9,739,496
Reinsurance	3,431,083	2,649,725
Other businesses	599,564	25,417
Policy fee from investment contracts	208,334	184,474
	51,106,054	49,632,770

7. Net investment income

	2011	2010
	HK$'000	*HK$'000*
Net investment income *(Note (a))*	6,043,371	4,427,832
Net realised and unrealised investment gains and impairment *(Note (b))*	549,422	1,776,184
	6,592,793	6,204,016

Notes:

(a) Net investment income

	2011	2010
	HK$'000	*HK$'000*
Interest income from debt investments		
– Held-to-maturity	3,325,338	2,260,599
– Available-for-sale	925,789	847,912
– Held-for-trading	17,101	20,968
– Designated at fair value through profit or loss	10,207	9,710
– Loans and receivables	396,815	193,518
Dividend income from direct equity securities and investment funds		
– Available-for-sale	337,245	448,224
– Held-for-trading	10,887	10,172
Gross rental income from investment properties	197,032	136,579
Less: direct outgoings	(12,280)	(5,140)
Bank deposits and other interest income	1,087,760	616,436
Interest on securities sold under repurchase agreements	(252,523)	(111,146)
	6,043,371	4,427,832

Included above is income from listed investments of HK$985,142,000 (2010: HK$1,124,239,000) and income from unlisted investments of HK$4,038,240,000 (2010: HK$2,666,864,000).

(b) Net realised and unrealised investment gains and impairment

	2011	2010
	HK$'000	*HK$'000*
Net realised investment gains (losses) on:		
Debt investments		
Held-to-maturity	1,655	–
Available-for-sale	100,554	167,258
Designated at fair value through profit or loss	(84)	12,050
Held-for-trading	18,274	2,499
Direct equity securities and investment funds		
Available-for-sale	(47,924)	1,310,415
Held-for-trading	(16,638)	14,251
Derivative financial instruments	(65,941)	(68,194)
Gain on disposal of investment properties	16,329	4,728
	6,225	1,443,007
Net unrealised investment gains (losses) on:		
Debt investments	(6,493)	19,519
Direct equity securities and investment funds	(35,155)	49,490
Composite investment funds	814	–
Derivative financial instruments	54,264	9,610
Investment properties under construction	324,758	315,543
Other investment properties	1,018,194	123,005
	1,356,382	517,167
Impairment loss (recognised) reversed in respect of		
– Available-for-sale securities	(813,185)	(190,601)
– Held-to-maturity securities	–	6,611
	(813,185)	(183,990)
	549,422	1,776,184

8. Other income

	2011	2010
	HK$'000	*HK$'000*
Income from provision of asset management services	41,772	20,214
Income from provision of property management services	76,187	41,247
Income from provision of insurance intermediary services	31,851	25,679
Income from provision of securities brokerage services	50,892	62,775
Income from provision of pension administration services	98,451	87,434
Interest income on secured loans to policyholders	66,305	33,305
Management fee income from a fellow subsidiary	2,463	14,830
Net gain on disposal of property, plant and equipment	36	205
Gain on disposal of associates	386,158	–
Net impairment losses written back in respect of property, plant and equipment	33,581	8,172
Net impairment losses written back (recognised) in respect of insurance and other debtors	7,157	(16,543)
Net foreign exchange gain (loss)	66,522	(142,453)
Others	121,579	29,042
	982,954	163,907

9. Net policyholders' benefits and net commission expenses

(a) Net policyholders' benefits

For the year ended 31 December 2011

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Claims and claim adjustment expenses	812,254	4,403,985	2,624,717	169,745	8,010,701
Less: Reinsurers' and retrocessionaries' shares	(160,891)	(647,969)	(493,165)	(43,626)	(1,345,651)
	651,363	3,756,016	2,131,552	126,119	6,665,050
Surrenders	2,706,983	–	–	–	2,706,983
Annuity, dividends and maturity payments	1,707,761	–	–	8,456	1,716,217
Interest allocated to investment contracts	1,115,898	–	–	–	1,115,898
	6,182,005	3,756,016	2,131,552	134,575	12,204,148

For the year ended 31 December 2010

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Claims and claim adjustment expenses	783,877	4,990,331	1,412,399	929	7,187,536
Less: Reinsurers' and retrocessionaries' shares	(215,672)	(785,818)	(105,073)	–	(1,106,563)
	568,205	4,204,513	1,307,326	929	6,080,973
Surrenders	1,412,938	–	–	–	1,412,938
Annuity, dividends and maturity payments	1,462,716	–	–	99	1,462,815
Interest allocated to investment contracts	1,205,902	–	–	–	1,205,902
	4,649,761	4,204,513	1,307,326	1,028	10,162,628

(b) Net commission expenses

For the year ended 31 December 2011

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross commission expenses	3,361,411	852,393	876,808	64,856	5,155,468
Reinsurance commission income	(41,128)	(511,767)	(64,489)	(23,380)	(640,764)
Net commission expenses	3,320,283	340,626	812,319	41,476	4,514,704

For the year ended 31 December 2010

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross commission expenses	3,252,093	893,417	657,141	1,719	4,804,370
Reinsurance commission income	(56,669)	(477,683)	(61,922)	–	(596,274)
Net commission expenses	3,195,424	415,734	595,219	1,719	4,208,096

10. Profit before taxation

Profit before taxation is arrived at after charging:

		2011	2010
		HK$'000	*HK$'000*
(a)	Finance costs:		
	Interest on interest-bearing notes		
	– wholly payable within 5 years	213,839	156,508
	– not wholly payable within 5 years	351,690	196,756
	Interest on bank loans and other borrowings wholly payable within 5 years	69,534	52,423
		635,063	405,687
(b)	Directors' remuneration:		
	– Fees	–	–
	– Other emoluments	14,799	23,074
	– Contributions to defined contribution retirement plans	196	860
	– Share-based compensation benefits	292	1,039
	Other staff costs:		
	Salaries, wages and other benefits	3,789,601	3,212,706
	Employee share-based compensation benefits	12,517	28,268
	Contributions to defined contribution retirement plans	395,641	335,905
		4,213,046	3,601,852
(c)	Other items		
	Auditor's remuneration	13,154	11,640
	Amortisation of prepaid lease payments	8,148	13,195
	Amortisation of intangible asset	141	–
	Depreciation of property, plant and equipment	332,168	324,425
	Operating lease charges in respect of properties	383,561	382,218
	Share of associates' taxation charge (included in share of results of associates)	7,306	621

11. Income tax in the consolidated statement of comprehensive income

(a) Income tax charge (credit) in the consolidated statement of comprehensive income represents:

	2011	2010
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	2,773	33,757
Underprovision in respect of prior years	53,004	5,344
	55,777	39,101
Current tax – Outside Hong Kong		
Provision for the year	168,204	303,660
(Overprovision) underprovision in respect of prior years	(17,420)	165
	150,784	303,825
Deferred tax *(Note 26(b))*	111,210	(11,786)
Income tax charge	317,771	331,140

The provision for Hong Kong Profits Tax represents the Group's estimated Hong Kong Profits Tax liability calculated at the standard tax rate of 16.5% (2010: 16.5%) on its assessable profits except for those from the business of reinsurance of offshore risks, which is calculated at 8.25% (2010: 8.25%), one-half of the standard tax rate.

The underprovision of Hong Kong Profits Tax in respect of prior years of HK$53,004,000 represents a provision for potential tax exposure.

Taxation outside Hong Kong for overseas subsidiaries is calculated at the rates prevailing in the relevant jurisdictions. Under the new Enterprise Income Tax Law of the PRC, the enterprise income tax rates for domestic companies in different provinces in the PRC range from 24% to 25% (2010: 22% to 25%).

The current tax provision outside Hong Kong in 2010 included an amount of HK$81,130,000, being a 10% withholding tax of the PRC in relation to the disposal of MAC *(Note 41)*.

(b) The income tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2011	2010/
	HK$'000	*HK$'000*
Profit before taxation	2,273,166	3,563,809
Tax at the rate applicable to assessable profits of the operations in different jurisdictions	559,166	660,295
Tax effect of share of results of associates	(366)	(2,867)
Tax effect of share of result of a jointly controlled entity	(1)	–
Tax effect of expenses not deductible for tax purpose	111,087	165,639
Effect of tax concession granted to the business of reinsurance with offshore risks	6,347	(21,938)
Tax effect of income not taxable for tax purpose	(464,237)	(390,339)
Tax effect of tax losses not recognised	89,672	54,830
Tax effect of deductible temporary differences not recognised	9,523	21,305
Tax effect of utilisation of tax losses previously not recognised	(62,353)	(67,963)
Tax effect of different tax rates on gain on disposal of MAC	–	(127,248)
Underprovision in respect of prior years	35,584	5,509
Effect of different tax rate of branches or subsidiaries operating in jurisdictions different from head office and holding companies	33,349	33,917
Income tax charge	317,771	331,140

12. Property, plant and equipment

	Buildings	Land and buildings	Other fixed assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2010	179,227	3,597,262	1,228,694	5,005,183
Exchange adjustments	1,255	94,872	35,940	132,067
Additions	–	99,677	246,680	346,357
Disposals	–	(13)	(73,157)	(73,170)
Derecognised on disposal of a subsidiary *(Note 41)*	–	(30,434)	(160,334)	(190,768)
Surplus on revaluation upon transfer from land and buildings to investment properties	–	23,094	–	23,094
Transfer from construction in progress	–	32,619	4,525	37,144
Transfer to investment properties	–	(72,768)	–	(72,768)
At 31 December 2010	180,482	3,744,309	1,282,348	5,207,139
Exchange adjustments	1,564	92,626	49,305	143,495
Additions	–	107,684	237,040	344,724
Disposals	–	–	(54,617)	(54,617)
Surplus on revaluation upon transfer from land and buildings to investment properties	–	233,466	–	233,466
Transfer from construction in progress	–	640,638	25,990	666,628
Net transfer to investment properties	–	(401,243)	–	(401,243)
At 31 December 2011	182,046	4,417,480	1,540,066	6,139,592
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2010	35,977	612,592	563,856	1,212,425
Exchange adjustments	445	11,189	21,483	33,117
Provided for the year	2,974	93,290	228,161	324,425
Impairment loss written back	–	(8,172)	–	(8,172)
Eliminated on disposals	–	–	(53,790)	(53,790)
Elimination on disposal of a subsidiary *(Note 41)*	–	(25,345)	(73,693)	(99,038)
Eliminated upon transfer to investment properties	–	(4,056)	–	(4,056)
At 31 December 2010	39,396	679,498	686,017	1,404,911
Exchange adjustments	598	10,087	33,958	44,643
Provided for the year	1,372	101,641	229,155	332,168
Impairment loss written back	–	(33,581)	–	(33,581)
Eliminated on disposals	–	–	(52,534)	(52,534)
Eliminated upon transfer to investment properties	–	(16,462)	–	(16,462)
At 31 December 2011	41,366	741,183	896,596	1,679,145
CARRYING VALUES				
At 31 December 2011	140,680	3,676,297	643,470	4,460,447
At 31 December 2010	141,086	3,064,811	596,331	3,802,228

The above items of property, plant and equipment are depreciated on a straight-line basis at following rates per annum:

Land and buildings	Over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years
Other fixed assets	10% to 33%

The Group is still in the process of obtaining the title deeds from relevant government authorities for its land and buildings situated outside Hong Kong with carrying value at 31 December 2011 of HK$714,199,000 (31.12.2010: HK$278,916,000).

The carrying value of properties shown above comprise:

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Land in Hong Kong		
– long leases	790,542	697,523
– medium-term leases	4,285	4,404
Land outside Hong Kong		
– freehold	108,666	108,381
– long leases	80,238	103,836
– medium-term leases	2,833,246	2,291,753
	3,816,977	3,205,897

13. Investment properties

	Investment properties under construction	**Other investment properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
FAIR VALUE			
At 1 January 2010	2,487,092	1,711,697	4,198,789
Exchange realignments	86,369	30,259	116,628
Additions	223,064	638	223,702
Transfer to construction in progress	(190,061)	–	(190,061)
Disposals	–	(43,127)	(43,127)
Transfer from land and buildings	–	68,712	68,712
Net increase in fair value recognised in profit or loss	315,543	123,005	438,548
At 31 December 2010	2,922,007	1,891,184	4,813,191
Exchange realignments	159,877	49,585	209,462
Additions	389,420	5,332	394,752
Disposals	–	(22,865)	(22,865)
Net transfer from land and buildings	–	384,781	384,781
Transfer from prepaid lease payments	882,866	–	882,866
Transfer to properties held for sale	–	(9,400)	(9,400)
Transfer from construction in progress	233,373	–	233,373
Transfer upon completion	(3,776,203)	3,776,203	–
Net increase in fair value recognised in profit or loss	324,758	1,018,194	1,342,952
At 31 December 2011	1,136,098	7,093,014	8,229,112

The fair value of the Group's investment properties at 31 December 2011 and 2010 have been arrived at on the basis of valuations carried out by Jones Lang Lasalle Sallmanns Limited, Asset Appraisal Limited, Knight Frank Pte Ltd and Shenzhen Tianjian Guozhonglian Asset Appraisal and Valuation Company Limited, independent qualified professional valuers not connected with the Group.

All of these professional valuers have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was primarily arrived at by reference to market evidence of transaction prices for similar properties and conditions and the capitalisation of the discounted value of total future net rental income.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

During the year ended 31 December 2011, interest capitalised in investment properties under construction amounted to HK$8,400,000 (2010: HK$8,337,000).

The Group is still in the process of obtaining the title deeds from relevant government authorities for its investment properties situated outside Hong Kong with long leases with fair value at 31 December 2011 of HK$23,919,000 (31.12.2010: HK$22,788,000).

The fair value of investment properties shown above comprises:

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Land in Hong Kong		
– long leases	1,123,545	1,032,008
– medium-term leases	65,550	64,030
Land outside Hong Kong		
– freehold	31,182	35,225
– long leases	2,409,146	662,371
– medium-term leases	4,598,575	3,019,084
– short leases	1,114	473
	8,229,112	4,813,191

14. Prepaid lease payments

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
– long leases	167,813	693,751
Analysed for reporting purpose as:		
Current assets	2,249	13,521
Non-current assets	165,564	680,230
	167,813	693,751

During the year, the Group had finalised a development plan which determined that certain portion of the leasehold land outside Hong Kong would be used for leasing purpose and thus should be classified as investment properties. Accordingly, a carrying amount of this relevant leasehold land of $568,930,000 has been transferred to investment properties at a fair value of $882,866,000 on 1 July 2011, based on revaluation by independent real estate appraisal company, Shenzhen Tianjian Guozhonglian Asset Appraisal and Valuation Company Limited. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The remaining leasehold land continued to be held for construction of properties is primarily for own use.

15. Goodwill and intangible assets

(a) Goodwill

	HK$'000
COST AND CARRYING VALUE	
At 1 January 2010, 31 December 2010 and 2011	1,051,215

(b) Intangible assets

	Trade name	**Club debenture**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2010, 31 December 2010 and 1 January 2011	261,408	–	261,408
Addition	–	3,524	3,524
At 31 December 2011	261,408	3,524	264,932
AMORTISATIONS			
At 1 January 2010, 31 December 2010 and 1 January 2011	–	–	–
Charge for the year	–	141	141
At 31 December 2011	–	141	141
CARRYING VALUES			
At 31 December 2011	261,408	3,383	264,791
At 31 December 2010	261,408	–	261,408

The intangible assets mainly represent the trade name acquired in the acquisition of a subsidiary in 2008, which is subject to annual impairment test. The relief-from-royalty approach is adopted to determine the fair value of the trade name. At the end of each reporting period, the management of the Group reassessed the assumptions of this approach. As at 31 December 2011, the valuation of the trade name is determined based on the future premiums estimated by TPI and discounted at 14% (2010: 14%). The trade name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trade name will not be amortised until its useful life is determined to be finite.

The club membership has definite useful life of 25 years. It is amortised on a straight-line basis over its useful life.

(c) ***Impairment tests for goodwill and intangible assets with indefinite useful lives***

For the purposes of impairment testing, goodwill and intangible assets with indefinite useful lives have been allocated to two individual cash generating units ("CGUs"), including life insurance business segment and property and casualty insurance business segment. The carrying amounts of goodwill and intangible assets with indefinite useful lives as at 31 December 2011 and 2010 allocated to these units are as follows:

	2011 and 2010		
	Goodwill	**Intangible assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Life insurance business	902,477	–	902,477
Property and casualty insurance business	148,738	261,408	410,146
	1,051,215	261,408	1,312,623

The recoverable amounts of CGUs containing goodwill or intangible assets were determined based on the value-in-use calculation. This calculation uses cash flow projections which represent what management believes is the best estimate that the CGUs are able to achieve in their business lives.

The management determined the cash flow projections based on past performance and their expectation for market development. They consider that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

In respect of life insurance business, the recoverable amount was determined based on Taiping Life Insurance Company Limited ("TPL")'s appraisal value, which consists of the adjusted net worth plus the present value of inforce business and the new business value after cost of capital.

In respect of property and casualty business, the recoverable amount was determined by estimating and discounting the future cash flows to present value using a discount rate of 14% (2010: 14%).

As at 31 December 2011 and 2010, management of the Group determines that there is no impairment of its CGUs containing goodwill and intangible assets.

16. Interests in associates

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Share of net assets	805,007	786,372

As at 31 December 2011 and 2010, the Group had interests in the following principal associates, all of which are unlisted corporate entities:

Name of associate	Form of business structure	Place/country of incorporation/ registration and operation	Particulars of issued and paid up/registered capital 2011	2010	Proportion of nominal value of issued capital/registered capital held by the Group 2011	2010	Principal activity
Shangri-La Hotels (Shenzhen) Limited	Incorporated	Hong Kong/the PRC	US$32,000,000	US$32,000,000	20.00%	20.00%	Hotel operation
CMT China Value Capital Advisors Limited	Incorporated	Hong Kong	HK$1,000	HK$1,000	46.00%	46.00%	Investment advisory services
CMT China Value Capital Partners, L.P. *(Note 1)*	Limited partnership	Cayman Islands/ Hong Kong	–	US$7,742,824	20.48%	20.63%	Investment holding
深圳亞洲實業股份有限公司*	Incorporated	The PRC	RMB158,000,000	RMB158,000,000	30.51%	30.51%	Travel, catering and trading
Shenzhen Futian Gas Turbine Power Co. Ltd. ("Shenzhen Futian Gas")*	Incorporated	The PRC	– *(Note 2)*	RMB68,060,000	– *(Note 2)*	30.00%	Power supply
Huatai Insurance Agency & Consultant Service Limited*	Incorporated	The PRC	RMB40,000,000	RMB40,000,000	25.00%	25.00%	Insurance agency and consultancy
中保大廈有限公司*	Incorporated	The PRC	RMB404,958,000	RMB404,958,000	25.00%	25.00%	Property holding

* These companies are PRC limited companies.

Note 1: The limited partnership distributed the capital in current year.

Note 2: During the year ended 31 December 2011, China Insurance Group Investment Company Limited ("CIGI"), a wholly owned subsidiary of the Company, disposed its entire equity interest in Shenzhen Futian Gas to an existing shareholder of Shenzhen Futian Gas at a consideration of RMB332,000,000.

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

The summarised financial information in respect of the Group's associates is set out below:

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Total assets	4,883,242	4,810,510
Total liabilities	(1,220,953)	(1,211,532)
Net assets	3,662,289	3,598,978
Group's share of net assets of associates	805,007	786,372

	For the year ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Revenue	677,635	576,780
Profit for the year	120,414	82,458
Group's share of results of associates for the year	30,619	17,375

17. Interest in a jointly controlled entity

As at 31 December 2011, the Group had interest in the following jointly controlled entity:

Name of entity	Form of entity	Country of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
北京世紀億茂物業管理有限公司 ("北京世紀億茂")	Incorporated	The PRC	The PRC	Ordinary	51%	50%	Property management

	2011	2010
	HK$'000	*HK$'000*
Cost of unlisted investment	180	–
Share of post-acquisition profits and other comprehensive income	19	–
	199	–

The Group holds 51% of the share capital of 北京世紀億茂 and controls 50% of the voting power in general meeting. 北京世紀億茂 is jointly controlled by the Group and the other shareholder by virtue of contractual arrangements among shareholders. Accordingly, 北京世紀億茂 is classified as a jointly controlled entity of the Group.

18. Construction in progress

	2011	2010
	HK$'000	*HK$'000*
At 1 January	707,220	288,020
Exchange adjustments	40,286	9,949
Transfer from investment properties under construction	–	190,061
Additions	192,148	260,443
Disposals	–	(4,109)
Surplus on revaluation upon transfer to investment properties	72,330	–
Transfer to investment properties under construction	(233,373)	–
Transfer to property, plant and equipment	(666,628)	(37,144)
At 31 December	111,983	707,220

19. Properties held for sale

At 31 December 2011, the properties held for sale of the Group included completed properties held for sale of HK$9,400,000.

Movements in properties held for sale as follows:

	Completed properties held for sale
	HK$'000
At 1 January 2010, 31 December 2010 and 1 January 2011	240
Reclassified from investment properties	9,400
Disposals	(240)
At 31 December 2011	9,400

All of the properties held for sale are carried at net realisable value. As at 31 December 2011 and 2010, all properties for sale are situated in Hong Kong.

On 29 November 2011, the Group entered into a provisional sales and purchase agreement with an independent third party for the disposal of a property located in Hong Kong. Accordingly, such property was transferred from investment properties to properties held for sale at fair value of HK$9,400,000.

20. Investments in securities

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Held-to-maturity securities		
Debt securities		
Listed		
– in Hong Kong	349,157	157,102
– outside Hong Kong	3,865,055	3,108,274
Unlisted	79,541,722	59,699,157
Sub-total of held-to-maturity securities	83,755,934	62,964,533

The fair value of held-to-maturity debt securities is HK$83,800,284,000 (31.12.2010: HK$62,335,589,000). The fair value of the unlisted held-to-maturity securities is determined by reference to recent market transactions or in accordance with generally accepted pricing models including discounted cash flow technique.

The held-to-maturity debt securities include an amount of HK$275,639,000 (31.12.2010: HK$881,204,000) which is maturing within one year.

The market value of held-to-maturity listed debt securities is HK$4,254,079,000 (31.12.2010: HK$3,670,549,000). None of the held-to-maturity securities are past due or impaired.

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Available-for-sale securities		
Direct equity securities		
Listed		
– in Hong Kong	1,352,856	1,873,249
– outside Hong Kong	5,140,959	8,294,577
Unlisted		
– outside Hong Kong, at cost	2,662,169	2,545,650
– outside Hong Kong, at fair value	6,667	8,312
	9,162,651	12,721,788
Debt securities		
Listed		
– in Hong Kong	315,948	329,197
– outside Hong Kong	10,913,377	9,611,181
Unlisted	10,941,193	9,581,990
	22,170,518	19,522,368
Investment funds		
Listed		
– in Hong Kong	–	9,224
– outside Hong Kong	3,155,453	933,796
Unlisted	2,477,541	3,288,968
	5,632,994	4,231,988
Sub-total of available-for-sale securities	36,966,163	36,476,144

The unlisted available-for-sale equity securities are primarily issued by private entities incorporated in the PRC. They are measured at cost at the end of the reporting period as the management considers that their fair values cannot be measured reliably.

The Group invests in open-ended or close-ended investment funds with underlying assets of equity, bond or composite funds.

The fair values of the unlisted debt securities are determined by reference to recent market transactions or in accordance with generally accepted pricing models including discounted cash flow technique.

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Held-for-trading securities		
Direct equity securities		
Listed		
– in Hong Kong	102,068	123,852
– outside Hong Kong	47,500	198,198
	149,568	322,050
Debt securities		
Listed		
– in Hong Kong	–	60,211
– outside Hong Kong	309,002	478,144
Unlisted	64,273	79,216
	373,275	617,571
Investment funds		
Listed		
– outside Hong Kong	138,228	109,555
Unlisted	28,275	9,788
	166,503	119,343
Sub-total of held-for-trading securities	689,346	1,058,964
Securities designated at fair value through profit or loss		
Debt securities		
Listed		
– outside Hong Kong	171,367	148,534
Unlisted	27,394	22,763
Sub-total of securities designated at fair value through profit or loss	198,761	171,297
Loans and receivables		
Unlisted debt securities *(Note)*	10,810,699	4,109,604
Total	132,420,903	104,780,542

Note: The unlisted debt securities relate to finance for infrastructure projects in the PRC. The debt securities will be matured from 2015 to 2021 (2010: 2015 to 2020) and bear interest ranging from 5% to 6% (2010: 5% to 6%) per annum. The fair values of the unlisted debt securities are determined with reference to the estimated cashflow discounted using market interest rates as at the end of the reporting period.

The fair value of loans and receivables is HK$10,247,640,000 (31.12.2010: HK$3,833,689,000). The fair value of the loans and receivables is determined with reference to the estimated cashflows discounted using market interest rates as at the end of the reporting period.

None of the loans and receivables are past due or impaired.

The weighted average effective interest rates in respect of investments in debt securities is 4.59% (2010: 4.50%).

21. Insurance debtors

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Amounts due from insurance customers	2,221,133	1,496,959
Less: Allowance for impaired debts	(124,187)	(124,835)
	2,096,946	1,372,124
Deposits retained by cedants	173,120	219,251
	2,270,066	1,591,375

All of the insurance debtors are interest-free. Included in insurance debtors is an amount of HK$2,148,616,000 (31.12.2010: HK$1,452,253,000) which is expected to be recovered within one year.

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

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Uninvoiced	407,201	290,004
Current	1,466,810	897,172
More than 3 months but less than 12 months	219,674	146,292
More than 12 months	3,261	38,656
	2,096,946	1,372,124

Amounts due from insurance customers that were neither past due nor impaired relate to a wide range of customers with no recent history of default.

Amounts due from insurance customers that were past due but not impaired relate to a number of independent policyholders and reinsurers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

The amount of impaired debts is HK$124,187,000 (31.12.2010: HK$124,835,000). Management has taken various actions to recover the debts, but these debts have not been recovered and hence impairment allowance is recognised.

Movement in the allowance for impaired debts:

	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	124,835	117,378
Impairment loss recognised	–	11,833
Impairment loss reversed	(5,856)	(212)
Uncollectible amounts written off	(6)	(916)
Exchange difference	5,214	3,276
Eliminated on disposal of a subsidiary	–	(6,524)
At 31 December	124,187	124,835

22. Reinsurers' share of insurance contract provisions

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

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Life insurance contract liabilities *(Note 30)*	36,126	13,034
Unearned premium reserve *(Note 31)*	726,409	628,678
Outstanding claims reserve *(Note 32)*	2,254,205	1,810,364
	3,016,740	2,452,076

23. Policyholder account assets in respect of unit-linked products

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Investment in held-for-trading securities		
– Debt securities	235,020	105,034
– Direct equity securities	562,268	1,121,446
– Investment funds	1,517,125	2,108,539
Money market funds	16,128	62,771
Cash and cash equivalents	1,360,225	1,196,599
Other debtors	31,321	154,002
Securities purchased under resale agreements	7,030	160,882
	3,729,117	4,909,273

The above assets are held for policyholders of unit-linked products.

24. Other debtors

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Interest receivable	2,408,994	1,985,365
Deposits for acquisition of properties	13,138	29,534
Sales proceeds receivable from disposal of a subsidiary *(Note 41)*	–	1,267,914
Tax certificate paid to Hong Kong Inland Revenue Department	52,902	40,295
Business tax prepaid	174,598	234,336
Rental and utility deposits	70,578	58,527
Other debtors, deposits and prepayments	1,303,499	1,622,535
Less: Allowance for impaired debts	(172,953)	(173,284)
	3,850,756	5,065,222
Loans receivable		
Secured loans to policyholders	1,548,858	1,057,445
	5,399,614	6,122,667

All loans receivable and interest receivable are expected to be recovered within one year.

The secured loans to policyholders carry fixed interest rates of 6.4% per annum and are repayable within six months from the end of the reporting period. There was no amount due but unpaid nor any allowance for impaired debts made against the principal amount or interest on these loans receivable as of 31 December 2011 and 2010.

As at 31 December 2011, included in the other debtors, deposits and prepayment is an amount of HK$507,678,000 placed in an escrow bank account for the purpose of capital injection into a subsidiary.

For other debtors which are past due at the end of the reporting period, impairment loss has been provided. There was no debtors past due but not impaired at the end of the reporting period.

Movement in allowance for impaired debts

	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	173,284	168,362
Impairment loss (reversed) recognised	(1,301)	4,922
Exchange difference	970	–
At 31 December	172,953	173,284

The amount of impaired debts are HK$172,953,000 (31.12.2010: HK$173,284,000). The Group has taken various actions to recover the debts, but these debts have not been recovered and hence impairment allowance is recognised.

25. Amounts due from (to) group companies

(a) Due from group companies

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Amount due from the ultimate holding company *(Note (i))*	2,631,298	717,618
Amounts due from fellow subsidiaries *(Note (ii))*	15,436	1,574,408
Amounts due from associates *(Note (iii))*	8,339	8,923
	2,655,073	2,300,949

Notes:

(i) The amount due from the ultimate holding company is unsecured and with the following terms:

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Current portion		
– 5.18% per annum	4,669	63,460
– interest-free	1,177,856	24,908
	1,182,525	88,368
Non-current portion		
– 3.15% per annum	–	629,250
– HIBOR + 1.71% per annum	1,448,773	–
	1,448,773	629,250
	2,631,298	717,618

(ii) The amounts due from fellow subsidiaries are unsecured and with the following terms:

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Current portion		
– at HIBOR + 0.53% per annum	–	225,000
– at HIBOR + 0.73% per annum	–	95,000
– interest-free	15,436	784,408
	15,436	1,104,408
Non-current portion		
– at HIBOR + 0.53% per annum	–	400,000
– at HIBOR + 1.15% per annum	–	50,000
– at HIBOR + 0.95% per annum	–	20,000
	–	470,000
	15,436	1,574,408

(iii) The amounts due from associates are unsecured, interest-free and repayable on demand.

(b) Due to group companies

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Amount due to the ultimate holding company	7,218	–
Amounts due to fellow subsidiaries	37,830	–
	45,048	–

Amounts due to group companies are unsecured, interest free and repayable on demand.

26. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	2,773	33,757
Provisional Hong Kong Profits Tax paid	(15,652)	(24,866)
	(12,879)	8,891
Hong Kong Profits Tax provision relating to prior years	224,565	166,644
Taxation outside Hong Kong	151,362	322,680
	363,048	498,215
Tax recoverable recognised in the consolidated statement of financial position	–	3,157
Tax payable recognised in the consolidated statement of financial position	(363,048)	(501,372)
	(363,048)	(498,215)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets (liabilities) (prior to the offsetting of balances within the same taxation jurisdiction) recognised in the consolidated statement of financial position and the movements during the current and prior years are as follows:

	Deferred tax arising from							
	Difference in tax depreciation allowances and related depreciation	Revaluation of properties	Fair value adjustment of available-for-sale investments	Unused tax losses	Life insurance funds	Fair value adjustment arising from business combination	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	(123)	(363,794)	(162,989)	150,305	(973,596)	(79,222)	(231,104)	(1,660,523)
Exchange adjustment.	(73)	(16,413)	(4,656)	3,323	(46,384)	–	(18,517)	(82,720)
(Charge) credit to profit or loss *(note 11)*.	(152)	(155,547)	38,027	58,842	–	–	70,617	11,787
Charge to other comprehensive income .	–	–	(80,510)	–	–	–	–	(80,510)
At 31 December 2010	(348)	(535,754)	(210,128)	212,470	(1,019,980)	(79,222)	(179,004)	(1,811,966)
Exchange adjustment.	(197)	(14,593)	(7,536)	3,661	(50,618)	–	(6,968)	(76,251)
Credit (charge) to profit or loss *(note 11)*.	(8,746)	(309,106)	119,474	(40,729)	–	–	127,897	(111,210)
(Charge) credit to other comprehensive income .	–	(153,784)	1,022,485	–	–	–	–	868,701
At 31 December 2011	(9,291)	(1,013,237)	924,295	175,402	(1,070,598)	(79,222)	(58,075)	(1,130,726)

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	159,276	153,373
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,290,002)	(1,965,339)
	(1,130,726)	(1,811,966)

(c) Deferred tax assets not recognised:

At 31 December 2011, the Group had not recognised deferred tax assets in respect of certain tax losses of HK$1,860,526,000 (31.12.2010: HK$1,759,151,000) due to the unpredictability of the future profit streams. The tax losses of HK$753,000,000 (31.12.2010: HK$822,000,000) can be carried forward up to 5 years after the year in which the loss was originated to offset future taxable profits, while the remaining tax losses do not expire under current tax legislation. There were no other significant temporary differences at 31 December 2011 and 2010.

27. Statutory deposits

Certain subsidiaries of the Group have placed deposits of HK$2,299,244,000 (31.12.2010: HK$1,440,375,000) with banks as capital guarantee funds, pursuant to the relevant PRC insurance rules and regulations. The funds can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiaries cannot meet the statutory solvency requirements or go into liquidation.

Certain subsidiaries of the Group have pledged bank deposits of HK$106,617,000 (31.12.2010: HK$85,199,000) with various regulatory bodies for operational purposes.

28. Pledged bank deposits

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
The Group has pledged bank deposits for the following purposes:		
To secure banking facilities	203,677	176,613
As a cash collateral in respect of performance bonds issued on behalf of customers	52,368	52,868
	256,045	229,481

The pledged bank deposits are expected to be settled within one year.

29. Cash and cash equivalents

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Deposits with banks and other financial institutions with original maturity less than three months	10,582,940	7,321,139
Money market funds	–	396
Cash at bank and in hand	9,391,570	10,631,050
	19,974,510	17,952,585

30. Life insurance contract liabilities

	2011			2010		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January	60,391,614	(13,034)	60,378,580	31,089,308	(13,302)	31,076,006
Exchange alignment	3,623,729	(1,154)	3,622,575	1,759,258	(444)	1,758,814
Premiums written during the year	38,528,402	(375,516)	38,152,886	37,033,658	(305,736)	36,727,922
Surrenders	(2,706,983)	–	(2,706,983)	(1,412,938)	–	(1,412,938)
Annuity, dividend and payments	(1,716,217)	–	(1,716,217)	(1,462,815)	–	(1,462,815)
Other movements	(6,924,562)	353,578	(6,570,984)	(6,614,857)	306,448	(6,308,409)
Balance as at 31 December	91,195,983	(36,126)	91,159,857	60,391,614	(13,034)	60,378,580

Key assumptions used in estimating the life insurance contract liabilities

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

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

Sensitivities of changes in key assumptions

	Impact on profit for the year and total equity	
	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
1% increase in interest rate	2,373,370	2,876,330
10% decrease in mortality/morbidity rate	352,750	326,310

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

31. Unearned premium reserve

	31.12.2011			31.12.2010		
	Gross	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property and casualty insurance	3,688,161	(481,119)	3,207,042	3,223,782	(440,116)	2,783,666
Life insurance	308,986	(89,457)	219,529	399,683	(108,114)	291,569
Reinsurance	1,112,834	(102,404)	1,010,430	870,133	(80,448)	789,685
Other businesses	216,755	(53,429)	163,326	16,417	–	16,417
	5,326,736	(726,409)	4,600,327	4,510,015	(628,678)	3,881,337
Current	4,779,390	(685,873)	4,093,517	4,234,244	(584,912)	3,649,332
Non-current	547,346	(40,536)	506,810	275,771	(43,766)	232,005
	5,326,736	(726,409)	4,600,327	4,510,015	(628,678)	3,881,337

Analysis of movements in unearned premium reserve:

	2011			2010		
	Gross	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	4,510,015	(628,678)	3,881,337	4,206,649	(574,189)	3,632,460
Exchange adjustment	149,401	(20,988)	128,413	198,852	(54,209)	144,643
Premiums written during the year	50,897,720	(2,261,523)	48,636,197	49,448,296	(2,157,048)	47,291,248
Premiums earned during the year	(50,230,400)	2,184,780	(48,045,620)	(48,500,585)	2,038,786	(46,461,799)
Disposal of subsidiary *(Note 41)*	–	–	–	(843,197)	117,982	(725,215)
At 31 December	5,326,736	(726,409)	4,600,327	4,510,015	(628,678)	3,881,337

Assumptions and methodologies

The unearned premium reserve comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

A provision is made for unexpired risks arising from property and casualty insurance and reinsurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premium reserve in relation to such policies.

32. Outstanding claims reserve

	31.12.2011			31.12.2010		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property and casualty insurance	5,954,684	(1,534,991)	4,419,693	5,439,304	(1,491,506)	3,947,798
Life insurance	227,012	(43,189)	183,823	218,737	(50,301)	168,436
Reinsurance	4,286,130	(662,737)	3,623,393	3,124,689	(268,557)	2,856,132
Other businesses	71,718	(13,288)	58,430	410	–	410
	10,539,544	(2,254,205)	8,285,339	8,783,140	(1,810,364)	6,972,776
Current	6,199,236	(1,510,119)	4,689,117	5,368,184	(1,106,480)	4,261,704
Non-current	4,340,308	(744,086)	3,596,222	3,414,956	(703,884)	2,711,072
	10,539,544	(2,254,205)	8,285,339	8,783,140	(1,810,364)	6,972,776

Analysis of movements in outstanding claims reserve:

	2011			2010		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January	8,783,140	(1,810,364)	6,972,776	7,838,843	(1,727,580)	6,111,263
Exchange adjustment	134,510	(18,118)	116,392	236,954	(79,813)	157,141
Claims paid	(6,388,807)	919,928	(5,468,879)	(5,982,240)	1,008,930	(4,973,310)
Claims incurred	8,010,701	(1,345,651)	6,665,050	7,187,536	(1,106,563)	6,080,973
Disposal of subsidiary *(Note 41)*	–	–	–	(497,953)	94,662	(403,291)
At 31 December	10,539,544	(2,254,205)	8,285,339	8,783,140	(1,810,364)	6,972,776

Process used to determine the assumptions

The Group maintains a comprehensive database for all claims (both paid and reported outstanding claims) as notified to the Group from time to time. Periodical review of the provisions for reported outstanding claims is conducted to reflect the latest development. The reserve for claims incurred but not reported is made by using a range of statistical methods such as paid and incurred loss development methods and the Bornhuetter-Ferguson method, supplemented by management judgement. Larger-than-normal claims are reviewed separately.

The claims reserves are reviewed regularly to ensure the provisions are in line with the latest development of each major class of business for the Group. Key assumptions used in estimating claims liabilities are as follows:

- The past claims development experience can be used as a reference to project future claims development and hence the ultimate claims costs.

- There are no significant changes in the legal, social, economic or technological environment that may affect the cost, frequency or future reporting of claims.

During the year, there were no significant changes in the key assumptions used by the Group in estimating the outstanding claims reserve. Due to the potential variability of the assumptions used, the actual emergence of claims may vary with the outstanding claims reserve included in the Group's consolidated financial statements, particularly when settlements may not occur until well into the future (i.e. long-tail business). Therefore, any potential variability of the assumptions used may have a significant impact on the Group's consolidated results and financial position.

The standard actuarial methods as used by the Group are applied to the run-off triangles for the incurred claims, so that a range of estimates for the ultimate loss for each major class of business is obtained. Within this range, a realistic estimated value for the ultimate loss is determined as at the end of the reporting period which is recognised in the consolidated statement of financial position.

33. Investment contract liabilities

(a) Unit-linked products

	2011	2010
	HK$'000	*HK$'000*
Balance as at 1 January	4,909,273	5,078,319
Premiums received during the year	285,808	118,691
Investment (loss) income allocated to investment contracts	(828,326)	241,923
Surrenders and others	(849,179)	(697,693)
Exchange alignment	211,541	168,033
Balance as at 31 December	3,729,117	4,909,273

(b) Universal life and other products

	2011	2010
	HK$'000	*HK$'000*
Balance as at 1 January	31,368,968	31,303,618
Premiums received during the year	962,911	1,060,279
Interest allocated to investment contracts, net of management fee	1,004,763	1,205,902
Surrenders and others	(7,134,858)	(3,008,880)
Exchange alignment	1,437,589	808,049
Balance as at 31 December	27,639,373	31,368,968
Total investment contract liabilities as at 31 December	31,368,490	36,278,241

34. Securities purchased under resale agreements/securities sold under repurchase agreements

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

Conversely, the Group also enters into short-term investment arrangements secured by the securities purchased. The securities purchased are not recognised on the statement of financial position.

All of the securities purchased under resale agreements and securities sold under repurchase agreements are denominated in RMB and will be settled within one year from the end of the reporting period. The carrying amounts of the securities purchased under resale agreements and securities sold under repurchase agreements approximate to their fair value.

As at 31 December 2011, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of approximately HK$22,833 million (31.12.2010: approximately HK$15,885 million) were pledged under securities sold under repurchase agreements.

As at 31 December 2011, most of the securities purchased under resale agreements and the securities sold under repurchase agreements will mature within 9 days (31 December 2010: within 7 days), with interest rate 5% – 11% (31.12.2010: 3% -8%) and 3% – 11% (31.12.2010: 5% – 6%) per annum respectively.

35. Borrowings

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Interest-bearing notes *(Note (a))*	11,040,734	10,231,074
Bank loans and other borrowings *(Note(b))*	3,729,632	4,127,820
	14,770,366	14,358,894

Notes:

(a) Interest-bearing notes

The interest-bearing notes are repayable as follows:

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Within 5 years		
– redeemable under certain conditions	1,357,759	1,358,465
– not redeemable	1,850,250	1,762,770
After 5 years but within 10 years		
– redeemable at the fifth anniversary of the issue date	7,832,725	7,109,839
	11,040,734	10,231,074
Fair value of interest-bearing notes	10,377,236	9,719,184

As at the end of the reporting period, all interest-bearing notes carry fixed interest at rates ranging from 4.45% to 6.30% per annum. The interest-bearing notes are all denominated in RMB except for the notes with principal amount of US$175,000,000 and carrying amount of HK$1,355,759,000 as at 31 December 2011 (31.12.2010: HK$1,358,465,000), which are listed on the Singapore Exchange Securities Trading Limited.

As at 31 December 2011, all interest-bearing notes are free of any collateral and guarantee, except for the notes with carrying amount of HK$863,450,000 (31.12.2010: HK$822,626,000) and HK$1,357,759,000 (31.12.2010: HK$1,358,465,000), which are free of any collateral but which are unconditionally and irrevocably guaranteed by TPG and China Taiping Insurance Holding Company Limited ("CTIH"), a subsidiary of the Company, respectively.

(b) Bank loans and other borrowings

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Bank loans		
– unsecured	3,719,972	4,118,160
Unsecured loans	9,660	9,660
	3,729,632	4,127,820

The loans are repayable as follows:

	31.12.2011	**31.12.2010**
	HK$'000	*HK$'000*
Within 1 year	9,660	1,327,864
After 1 year but within 5 years	3,719,972	2,799,956
	3,729,632	4,127,820

The amounts presented in the above table are based on scheduled repayment dates set out in the loan agreements. As at 31 December 2011, included in the carrying amounts repayable after 1 year but within 5 years is an amount of nil (31.12.2010: HK$500,000,000) which contain a repayment on demand clause in the loan agreement.

As at 31 December 2011, other than a bank loan of nil (31.12.2010: HK$68,160,000) which carried a fixed interest rate of 5.18% per annum, all bank loans are unsecured and carry interest at HIBOR + 0.8% to HIBOR + 1.3% (31.12.2010: HIBOR + 0.45% to HIBOR + 1.15%) per annum, with effective interest rates ranging from 0.78% to 1.67% (31.12.2010: 0.68% to 1.66%) per annum.

36. Asset classified as held for sale

The asset classified as held for sale of the Group as at 31 December 2010 represents an equity interest in an associate.

On 8 December 2010, the management of the Group resolved to dispose one of the associates, Shenzhen Futian Gas. The associate was disposed to an existing shareholder of Shenzhen Futian Gas at a consideration of RMB332,000,000 (approximately HK$397,289,000) during the year ended 31 December 2011.

37. Insurance creditors

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Amounts due to insurance customers, reinsurers and insurance intermediaries	1,316,797	853,517
Deposits retained from reinsurers/retrocessionaries	177,031	240,011
Prepaid premiums received	1,572,188	896,848
Collateral deposits held	62,113	67,302
	3,128,129	2,057,678

Included in insurance creditors is an amount of HK$3,128,129,000 (31.12.2010: HK$1,990,786,000) which is expected to be settled within one year.

38. Other creditors and accrued charges

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Payable for acquisition of additional interest in a subsidiary *(Note 51)*	293,080	–
Amount due to a non-controlling shareholder	–	321
Amounts due to securities brokerage customers	33,905	92,010
Amounts payable to brokers for unsettled trades	6,201	60,964
Capital expenditure payable	322,990	30,430
Deposits received from agents	52,643	53,888
Interest payable	140,569	108,414
Salary and staff benefits payable	1,812,065	1,517,365
Accrued charges and others	1,369,458	1,192,015
	4,030,911	3,055,407

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

39. Insurance protection fund

The amount represents the amount payable to the insurance protection fund at the end of the reporting period. According to the CIRC's Order (2008) No. 2 "Administration rule on insurance protection fund", the insurance protection fund is calculated on the basis of 0.8% of retained premium for accident and short-term health policies, 0.15% of retained premium for long-term life and long-term health policies with guaranteed interest, and 0.05% of retained premium for long-term life policies without guaranteed interest. The ceiling of the fund for a life insurance company is 1% of its total assets and for a property and casualty insurance company 6% of its total assets.

40. Derivative financial instruments

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Interest rate swaps	45,005	99,269

The Group uses interest rate swaps to manage its exposure to volatility in interest payments relating to certain floating-rate long term borrowings.

The amount represents fair value of interest rate swap contracts at the end of the reporting period, which are not qualified for hedging accounting.

The major terms of interest rate swaps as at 31 December 2011 and 2010 are as follows:

Aggregate notional amount	Maturity dates	Swaps
2011		
HK$1,700,000,000	From 25 June 2012 to 21 August 2013	Fixed rates ranging from 2.95% to 4.29% for HIBOR
2010		
HK$1,900,000,000	From 22 August 2011 to 21 August 2013	Fixed rates ranging from 2.71% to 4.29% for HIBOR

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

41. Disposal of a subsidiary

On 29 October 2010, China Taiping Insurance (HK) Company Limited ("CTPI (HK)"), a subsidiary of the Company, entered into a sale and purchase agreement and a supplementary agreement with six corporate purchasers that are independent third parties of the Group. Pursuant to the agreements, CTPI (HK) agreed to sell its 100% equity interest in MAC to the above purchasers for a cash consideration of RMB1,541.30 million (the "Disposal"). As at 31 December 2010, the CIRC approved the Disposal and in the opinion of the directors of the Company, the Group's control over MAC's financial and business operation had been lost as at that date. Details of the Disposal were set out in the announcements of CTIH dated 15 March 2010, 11 June 2010, 20 September 2010, 21 September 2010, 29 October 2010, 7 January 2011 and 16 February 2011. After the Disposal, the Group ceased to have any interest in MAC.

	HK$'000
Consideration received and receivable	1,811,305
Assets and liabilities of MAC over which control on its financial and business operation has been lost:	
Statutory deposits	222,781
Property, plant and equipment	91,730
Investments in securities	803,053
Securities purchased under resale agreements	13,162
Insurance debtors	165,586
Reinsurers' share of insurance contract provisions	212,644
Other debtors	37,263
Deposits at banks with original maturity more than three months	117,518
Cash and cash equivalents	668,177
Less:	
– Unearned premium reserve	(843,197)
– Outstanding claims reserve	(497,953)
– Other liabilities	(372,794)
Net assets	617,970

	HK$'000
Gain on disposal of a subsidiary	
Consideration received and receivable	1,811,305
Net assets disposed of	(617,970)
Transaction expenses	(2,303)
Cumulative net fair value loss in respect of available-for-sale debt and equity securities reclassified from equity to profit or loss on disposal of the subsidiary	(14,411)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on disposal of the subsidiary	86,492
Gain on disposal before withholding tax	1,263,113
Less: withholding tax	(81,130)
Gain on disposal after withholding tax	1,181,983
Net cash outflow on disposal of a subsidiary in year ended 31 December 2010	
Cash consideration received during the year	543,391
Less: cash and cash equivalent balances disposed of	(668,177)
	(124,786)

The remaining balance of the consideration amounted to approximately HK$1,267,914,000 was received during the year ended 31 December 2011.

42. Equity compensation benefits

Share option scheme

A subsidiary of the Group had a share option scheme which was adopted on 24 May 2000 ("the Old Scheme") whereby the directors of the subsidiary were authorised, at their discretion, to invite employees of the subsidiary and its subsidiaries, including directors, to take up options to subscribe for shares of the subsidiary. Options granted between 24 May 2000 and 31 December 2002 were granted under the Old Scheme and in accordance with the requirements of Chapter 17 of the Rules governing the listing of securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") which came into effect on 1 September 2001.

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

All of the share options are settled in equity.

The following table discloses movements in the number of share options held by employees (including directors):

Option type	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Outstanding at 31.12.2011
2000	–	–	–	–
2001	–	–	–	–
2002	1,100,000	–	(400,000)	700,000
2006A	10,277,000	–	(1,260,000)	9,017,000
2007B	175,000	–	–	175,000
2007C	800,000	–	–	800,000
2007D	175,000	–	–	175,000
2007E	175,000	–	–	175,000
2008A	175,000	–	–	175,000
2008B	175,000	–	–	175,000
2009	350,000	–	–	350,000
2010A	175,000	–	–	175,000
2010B	175,000	–	–	175,000
2011A	–	175,000	–	175,000
2011B	–	175,000	–	175,000
	13,752,000	350,000	(1,660,000)	12,442,000
Exercisable at the end of the reporting period				12,442,000

Option type	Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Outstanding at 31.12.2010
2000	150,000	–	(150,000)	–
2001	500,000	–	(500,000)	–
2002	1,200,000	–	(100,000)	1,100,000
2006A	11,077,000	–	(800,000)	10,277,000
2007B	175,000	–	–	175,000
2007C	800,000	–	–	800,000
2007D	175,000	–	–	175,000
2007E	175,000	–	–	175,000
2008A	175,000	–	–	175,000
2008B	175,000	–	–	175,000
2009	350,000	–	–	350,000
2010A	–	175,000	–	175,000
2010B	–	175,000	–	175,000
	14,952,000	350,000	(1,550,000)	13,752,000
Exercisable at the end of the reporting period				13,752,000

In respect of the share options exercised during the year ended 31 December 2011, the weighted average share price at the dates of exercise was HK$19.14 (2010: HK$25.17).

Details of specific categories of options are as follows:

Option type	Date granted	Exercise period	Exerciseprice *HK$*
2000	25 September 2000 to 9 October 2000	25 September 2000 to 8 October 2011	1.110
2001	9 February 2001 to 17 February 2001	9 February 2001 to 16 February 2011	0.950
2002	12 September 2002 to 23 September 2002	12 September 2002 to 22 September 2012	3.225
2003	7 January 2003	7 January 2003 to 6 January 2013	3.975
2004A	5 January 2004	5 January 2004 to 4 January 2014	3.980
2004B	31 December 2004	27 January 2005 to 26 January 2015	3.200
2006A	2 November 2005	23 November 2005 to 27 November 2015	2.875
2006B	30 December 2005	3 January 2006 to 2 January 2016	3.300
2007A	30 June 2006	30 June 2006 to 29 June 2016	5.000
2007B	29 December 2006	29 December 2006 to 28 December 2016	9.800
2007C	26 February 2007	26 February 2007 to 25 February 2017	9.490
2007D	29 June 2007	29 June 2007 to 28 June 2017	14.220
2007E	31 December 2007	31 December 2007 to 30 December 2017	21.400
2008A	30 June 2008	30 June 2008 to 29 June 2018	19.316
2008B	31 December 2008	31 December 2008 to 30 December 2018	11.920
2010	31 December 2009	31 December 2009 to 30 December 2019	25.100
2010A	30 June 2010	30 June 2010 to 29 June 2020	25.910
2010B	31 December 2010	31 December 2010 to 30 December 2020	24.180
2011A	30 June 2011	30 June 2011 to 29 June 2021	17.580
2011B	30 December 2011	30 December 2011 to 29 December 2021	14.728

Note: No options lapsed for both years.

Fair value of share options and assumptions

HKFRS 2 requires that, when the Group grants employees options to acquire shares of the Group's subsidiary, the Group recognises the fair value of the options granted as an expense in the profit or loss with a corresponding increase in the employee share-based compensation reserve within equity.

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

Fair value of share options and assumptions are as follows:

	Date of grant			
	31.12.2011	**30.6.2011**	**31.12.2010**	**30.6.2010**
Fair value at measurement date *(HK$)*	6.638611	7.368792	10.96776	13.52584
Share price *(HK$)*	14.400	17.580	23.90	25.550
Exercise price *(HK$)*	14.728	17.580	24.18	25.910
Expected volatility *(Note (i))*	41.273%	33.969%	37.016%	46.823%
Option life (contractual life)	10	10	10	10
Expected dividends *(Note (ii))*	0.77%	0.77%	0.77%	0.77%
Risk-free interest rate *(Note (iii))*	1.465%	2.271%	2.856%	2.286%

Notes:

(i) The expected volatility is based on the historical volatility of the share price of the subsidiary, which grants the options during the year, one year immediately preceding the grant date.

(ii) Expected dividends are based on historical dividends since the listing of the subsidiary which grants the options.

(iii) Risk-free interest rate is based on the yield of the 10-year Hong Kong Exchange Fund Note.

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

Share award scheme

The share award scheme was adopted on 10 September 2007. The purpose of the share award scheme is to recognise and reward certain employees (including without limitation an employee who is also a director) of the Group and the ultimate holding company and its subsidiaries for their contributions to the Group and to give long-term incentives for retaining them for the continued operations and development of the Group.

Under the share award scheme, the directors of the subsidiaries may, from time to time, at its absolute discretion and subject to such terms and combinations as it may think fit select an employee for participation in the share award scheme and determine the number of shares to be awarded. Unless terminated earlier by the directors of the subsidiaries, the share award scheme shall be valid and effective for a term of 10 years commencing from the respective Adoption Date, and after such period no new award of shares shall be granted.

The shares awarded under the share award scheme are the shares of CTIH, a subsidiary of the Company, the shares of which are listed on The Main Board of the Stock Exchange of Hong Kong Limited.

(i) Movements in the number of awarded shares were as follows:

	Number of awarded shares	
	2011	**2010**
At 1 January	3,465,800	3,304,000
Awarded *(Note a)*	–	670,300
Vested *(Note b)*	(2,847,600)	(317,000)
Revoked *(Note c)*	(14,200)	(191,500)
At 31 December *(Note d)*	604,000	3,465,800

Notes:

(a) No awarded shares are purchased from the market during the years ended 31 December 2011 and 2010.

(b) The amount represents awarded shares vested during the year.

(c) The amount represents awarded shares lapsed automatically, according to the conditions under the share award scheme.

(d) At the end of the year, the average fair value per awarded share is HK$25.38 (31.12.2010: HK$22.43). The average fair value of the awarded shares is based on the closing bid price at the date of award and any directly attributable incremental cost.

Apart from the awarded shares, as at 31 December 2011, 951,400 shares (31.12.2010: 937,200 shares) are deemed as unallocated shares which are held under share award scheme and are available for future award and/or disposal pursuant to the rules of share award scheme.

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

	Number of awarded shares	
Remaining vesting period	**At 31.12.2011**	**At 31.12.2010**
Vested	–	2,811,000
1 year	604,000	–
1 year to 2 years	–	654,800
	604,000	3,465,800

43. Share capital

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$100 each		
Authorised:		
At 1 January 2010, 31 December 2010	50,000	5,000,000
Increase during the year	450,000	45,000,000
At 31 December 2011	500,000	50,000,000
Issued:		
At 1 January 2010	35,000	3,500,000
Issue of shares during the year	945	94,500
At 31 December 2010 and 31 December 2011	35,945	3,594,500

On 17 November 2010, the Company issued and allotted a total of 945,000 shares of HK$100 each in the Company at par to the shareholder to provide additional working capital. These shares rank *pari passu* in all respects with other shares in issue.

44. Reserves

	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	1,103,551	734,370	592,718	64,880	6,154,539	32,466	8,682,524	52,662	11,616,914	20,352,100
Profit for the year	–	–	–	–	1,330,035	–	1,330,035	–	625,360	1,955,395
Other comprehensive income	–	284,381	(1,065,320)	148,534	–	–	(632,405)	–	(1,577,082)	(2,209,487)
Revaluation gain arising from reclassification of owner-occupied properties into investment properties	–	–	–	148,534	–	–	148,534	–	317,414	465,948
Exchange differences on translation of the financial statements of subsidiaries	–	284,371	–	–	–	–	284,371	–	453,511	737,882
Share of other comprehensive income of a jointly controlled entity	–	10	–	–	–	–	10	–	–	10
Share of other comprehensive income of associates	–	–	(322)	–	–	–	(322)	–	–	(322)
Available-for-sale securities	–	–	(1,064,998)	–	–	–	(1,064,998)	–	(2,348,007)	(3,413,005)
– net change in fair value	–	–	(1,582,260)	–	–	–	(1,582,260)	–	(3,613,888)	(5,196,148)
– net deferred tax	–	–	277,493	–	–	–	277,493	–	744,992	1,022,485
– transferred to profit or loss	–	–	239,769	–	–	–	239,769	–	520,889	760,658
Total comprehensive income	–	284,381	(1,065,320)	148,534	1,330,035	–	697,630	–	(951,722)	(254,092)
Equity settled share-based transactions	(3,258)	–	–	–	2,460	30,658	29,860	(29,772)	12,721	12,809
Share options exercised	(3,258)	–	–	–	–	–	(3,258)	(861)	9,032	4,913
Share options granted	–	–	–	–	–	–	–	1,306	1,145	2,451
Amortisation arising from share award scheme	–	–	–	–	–	–	–	2,901	2,544	5,445
Transfer to retained profits for revoked shares under share award scheme	–	–	–	–	59	–	59	(59)	–	–
Vested share for share award scheme	–	–	–	–	2,401	30,658	33,059	(33,059)	–	–
Acquisition of additional interests in subsidiaries	(247,513)	–	–	–	–	–	(247,513)	–	(101,752)	(349,265)
Deemed contribution from holding company	–	–	–	–	–	31,200	31,200	–	–	31,200
Capital contribution made to subsidiaries	–	–	–	–	–	–	–	–	67,571	67,571
At 31 December 2011	852,780	1,018,751	(472,602)	213,414	7,487,034	94,324	9,193,701	22,890	10,643,732	19,860,323

	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	1,077,481	577,878	647,987	52,562	4,486,929	29,332	6,872,169	41,929	9,733,941	16,648,039
Profit for the year	–	–	–	–	1,666,873	–	1,666,873	–	1,565,796	3,232,669
Other comprehensive income (expense) for the year:	–									
Revaluation gain arising from reclassification of owner- occupied properties into investment properties	–	–	–	12,318	–	–	12,318	–	10,776	23,094
Exchange differences on translation of the financial statements of subsidiaries	–	202,627	–	–	–	–	202,627	–	288,146	490,773
Released upon disposal of a subsidiary	–	(46,135)	7,687	–	–	–	(38,448)	–	(33,633)	(72,081)
Share of other comprehensive income of associates	–	–	(669)	–	–	–	(669)	–	–	(669)
Available-for-sale securities:	–	–	(62,287)	–	–	–	(62,287)	–	121,649	59,362
– net change in fair value	–	–	409,471	–	–	–	409,471	–	878,895	1,288,366
– net deferred tax	–	–	(18,696)	–	–	–	(18,696)	–	(61,814)	(80,510)
– transferred to profit or loss	–	–	(453,062)	–	–	–	(453,062)	–	(695,432)	(1,148,494)
Total comprehensive income	–	156,492	(55,269)	12,318	1,666,873	–	1,780,414	–	1,952,734	3,733,148
Share options exercised	(2,551)	–	–	–	–	–	(2,551)	(547)	6,363	3,265
Share options granted	–	–	–	–	–	–	–	2,291	2,005	4,296
Amortisation arising from share award scheme	–	–	–	–	–	–	–	12,860	11,250	24,110
Transfer to retained profits for revoked shares under share award scheme	–	–	–	–	492	–	492	(492)	–	–
Vested share for share award scheme	–	–	–	–	245	3,134	3,379	(3,379)	–	–
Partial disposal of a subsidiary	28,621	–	–	–	–	–	28,621	–	(89,379)	(60,758)
At 31 December 2010	1,103,551	734,370	592,718	64,880	6,154,539	32,466	8,682,524	52,662	11,616,914	20,352,100

45. Fair values of financial instruments

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- The fair values of derivative instruments are estimated using discounted cash flow analysis and the applicable yield curve for the duration of the non-optional derivative;

- The fair value of unlisted investment funds and unlisted debt securities included in financial assets at fair value through profit or loss and available-for-sale investments are established by reference to the prices quoted by respective fund administrators or by using valuations techniques including the use of recent arm's length transactions and discounted cash flow analysis; and

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values, except for debt securities classified as held-to-maturity, loans and receivables as set out in note 20 and interest-bearing notes as set out in note 35(a).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Held-for-trading investments	633,838	55,508	–	689,346
Securities designated at fair value through profit or loss	198,761	–	–	198,761
Available-for-sale financial assets	23,026,440	11,277,554	–	34,303,994
Total	23,859,039	11,333,062	–	35,192,101
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	45,005	–	45,005

	31.12.2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Held-for-trading investments	1,058,964	–	–	1,058,964
Securities designated at fair value through profit or loss	171,297	–	–	171,297
Available-for-sale financial assets	24,333,053	9,597,441	–	33,930,494
Total	25,563,314	9,597,441	–	35,160,755
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	99,269	–	99,269

There were no transfers between Levels 1 and 2 during both years.

46. Capital commitments

Capital commitments outstanding as of 31 December 2011 and 2010 were as follows:

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided for in the consolidated financial statements	1,031,888	333,843

47. Operating leases

The Group as lessee

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2011	2010
	HK$'000	*HK$'000*
Within 1 year	303,497	278,162
After 1 year but within 5 years	331,419	310,879
After 5 years	16,077	8,690
	650,993	597,731

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

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2011	2010
	HK$'000	*HK$'000*
Within 1 year	265,370	82,644
After 1 year but within 5 years	442,708	49,638
After 5 years	44,624	–
	752,702	132,282

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

48. Pledged assets

Other than the statutory deposits as set out in note 27 to the consolidated financial statements, the Group has pledged the following assets according to the relevant insurance rules and regulations:

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Plant, plant and equipment	9,211	9,418
Investment properties	19,744	29,518
Investments in securities	220,935	195,574
	249,890	234,510

Other than the pledged bank deposits as set out in note 28 to the consolidated financial statements, the Group has pledged the following assets to secure bank loans and general banking facilities:

	31.12.2011	31.12.2010
	HK$'000	*HK$'000*
Plant, plant and equipment	5,618	5,986

49. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	Notes	2011	2010
		HK$'000	*HK$'000*
Interest income from ultimate holding company		21,767	18,154
Interest income from a fellow subsidiary		490	7,588
Management fee income from a fellow subsidiary		2,463	14,830
Back office services	*(i)*	207,602	147,167
Internal audit services	*(ii)*	48,797	33,049
Training services	*(iii)*	13,798	13,269

Notes:

(i) A fellow subsidiary of the Group provides back office services to the Group and receive services fee from the Group.

(ii) A fellow subsidiary of the Group provides internal audit services to the Group and receive service fee from the Group.

(iii) The Group has entered into agreements with TPG in respect of the provision of training services by TPG to the Group.

The Group considers that the key management personnel of the Group included the directors of the Company only. Their remuneration is disclosed in note 10 to the consolidated financial statements.

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

(a) On 31 December 2010, the Group has entered into the following agreements to re-align the ownership structure of Taiping Asset Management Company Limited ("TPAM") and Taiping Pension Company Limited ("TPP"):

(i) TPL, TPI and CTIH entered into a share transfer agreement pursuant to which TPL and TPI agreed to sell and CTIH agreed to purchase in aggregate a 60% equity interest in TPAM for an aggregate consideration of RMB222,684,000.

(ii) Taiping Assets Management (HK) Company Limited ("TPA(HK)") and Ageas Insurance International N.V. ("Ageas") entered into a share transfer agreement pursuant to which TPA(HK) agreed to sell and Ageas agreed to purchase a 12% equity interest in TPAM for a consideration of RMB44,536,800.

(iii) TPL, TPA(HK), TPI, Ageas and CTIH entered into a share transfer agreement pursuant to which TPL, TPA(HK), TPI and Ageas agreed to sell and CTIH agreed to purchase in aggregate a 96% equity interest in TPP for an aggregate consideration of RMB609,135,744 ("TPP Acquisition"). The transaction was completed in September 2011.

In addition, TPG, TPP and CTIH entered into a capital contribution agreement pursuant to which TPG and CTIH agreed to increase the capital of TPP in an aggregate amount of RMB450,000,000 and to contribute such capital in cash in proportion to their respective shareholdings in TPP upon the completion of TPP Acquisition. On 31 December 2010, the Group has deposited RMB432,000,000, being the capital contribution shared by the Group, into an escrow bank account and the amount has been paid to TPP in current year. The details of the transactions above were set out in the announcement of CTIH dated 31 December 2010. On 28 December 2011, TPL, TPI and CTIH entered into a supplemental agreement ("TPAM Supplemental Agreement") and TPA(HK) and Ageas entered into a supplemental agreement ("Ageas Supplemental Agreement") to amend the terms of the share transfer agreement for CTIH to purchase in aggregate a 60% equity interest in TPAM ("TPAM Share Transfer Agreement"), and the terms of the share transfer agreement for TPA(HK) to sell a 12% equity interest in TPAM ("TPAM Ageas Agreement"). Upon the execution of the supplemental agreements mentioned above, the TPAM Share Transfer Agreement (as amended by the TPAM Supplemental Agreement) and the TPAM Ageas Agreement (as amended by the Ageas Supplemental Agreement) became unconditional and the transaction was considered as complete on the same date. The details of the transaction were set out in the announcement of CTIH dated 28 December 2011.

(b) On 25 June 2010, Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)"), one of the shareholders of TPI, has decided not to participate in the capital contribution into TPI. TPG, ICBC (Asia) and CTIH entered into a conditional agreement (the "Agreement"), pursuant to which TPG and CTIH conditionally agreed to grant the right to ICBC (Asia), to purchase, within six months from the date of the Agreement or such later date as may be extended by the parties to the Agreement, an equity interest of approximately 1.29% and 1.72% in TPI as enlarged by the Capital Contribution and the Additional Capital Contribution from TPG and CTIH, respectively, at the consideration of RMB 26,663,335 and RMB35,586,665, respectively. The right will be exercisable at the discretion of ICBC (Asia) and, if exercised, must be exercised in full. The details of the transaction were set out in the announcement of CTIH dated 25 June 2010. ICBC (Asia) did not exercise the right within the period as stipulated in the agreement. On 27 July 2011, relevant approvals for the respective contributions of RMB214,163,335 and RMB285,836,665 by TPG and the CTIH to the registered capital of TPI have been obtained. Accordingly, the capital increase of TPI from RMB1,570,000,000 to RMB2,070,000,000 has been completed. The shareholding interest of TPI held by the Group has increased from 26.70% to 27.59%. The details of the transaction were set out in the announcement of the CTIH dated 27 July 2011.

(c) On 18 June 2010, TPI, TPG, TPL and MAC entered into a supplemental agreement (the "First Supplemental Agreement") to the Joint Bidding Agreement dated 20 March 2008 and Supplemental Agreement dated 5 November 2008, pursuant to which all the rights and interest of MAC in a piece of land in Shenzhen and the development of a commercial office building (representing 15% of the total investment) under the Joint Bidding Agreement as amended by the Supplemental Agreement shall be transferred to TPL at a consideration of approximately RMB94,740,000. The details of the transaction were set out in the announcement of CTIH dated 18 June 2010.

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

50. Accounting estimates and judgements

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

(a) Impairment of goodwill and intangible assets

The Group assesses annually if the goodwill and intangible assets associated with acquisition of subsidiaries and associates have suffered any impairment loss in accordance with the accounting policies stated in note 3. The recoverable amount of the goodwill and intangible assets is determined using discounted cash flows which require the use of estimated revenue from business operations, investment returns and an appropriate discount rate. Details of the goodwill and intangible assets are set out in note 15.

(b) Held-to-maturity investments

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

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets, as such class is deemed to have been tainted. This would result in held-to-maturity investments being measured at fair value instead of at amortised cost. Details of the held-to-maturity investments are set out in note 20.

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

The Group follows the guidance of HKAS 39 when determining whether there has been a significant or prolonged decline in the fair value of an investment in available-for-sale financial assets below its cost. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost. Details of the available-for-sale investments are set out in note 20.

(d) ***Determination of insurance liabilities***

The Group's insurance liabilities are mainly comprised of unearned premium reserves, outstanding claims reserves and life insurance contract liabilities and estimates for premiums and claims data not received from ceding companies at the date of the consolidated financial statements. The Group determines these estimates on the basis of historical information, actuarial analyses, financing modelling and other analytical techniques. The directors continually review the estimates and make adjustments as necessary, but actual results could differ significantly from what is envisioned when these estimates are made. Details of the assumptions used in determining the unearned premium reserve, outstanding claims reserves and life insurance funds are set out in notes 31, 32 and 30, respectively.

(e) ***Deferred tax liabilities***

As at 31 December 2011, a deferred tax liability of HK$1,071 million (31.12.2010: HK$1,020 million) has been recognised in the Group's consolidated statement of financial position, as a result of the increase in profit for prior years due to the change in accounting policies on insurance contracts of one of its subsidiary in the PRC. The PRC tax rules and regulations up to the date of the report are not clear enough to support that no provision of tax liability is required for the profits related to the current and previous years. In view of its nature, it is of the opinion of the directors that such a provision should be presented as a deferred liability as set out in note 26(b). In cases there are further developments in the tax rules and regulations, a material reversal of deferred tax liability may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. Details of the deferred tax liabilities are set out in note 26(b).

(f) ***Deferred tax assets***

As at 31 December 2011, deferred tax assets of HK$175,402,000 (31.12.2010: HK$212,470,000) in relation to unused tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of certain tax losses of HK$1,860,526,000 (31.12.2010: HK$1,759,151,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. Details of the deferred tax assets are set out in note 26.

(g) Fair value of investment properties

As at 31 December 2011, the Group's investment properties are stated at fair value of HK$8,229 million (31.12.2010: HK$4,813 million) based on the valuations performed by independent qualified professional valuers. In determining the fair value, the valuers have based on market value basis which involves, inter-alia, certain estimates, including comparable market transactions and appropriate capitalisation rates. In relying on the valuations, management has exercised their judgement and is satisfied that the method of valuation is reflective of current market conditions. Favourable or unfavourable change to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustment to the amount of gain or loss reported in profit or loss. Details of the investment properties are set out in note 13.

51. Particulars of principal subsidiaries of the company

Details of the Company's principal subsidiaries as at 31 December 2011 and 2010 are as follows:

Name of company	Place/country of incorporation or registration/ operation	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of ownership interest and voting power held by the Company				Principal activities
				Directly		Indirectly		
				2011	2010	2011	2010	
China Taiping Insurance Holdings Co. Ltd.	Hong Kong	Ordinary shares	HK$85,180,755 (2010: HK$85,103,255)	37.73%	37.77%	15.56%	15.57%	Investment holding
Taiping Reinsurance Company Limited	Hong Kong	Ordinary shares Deferred shares	HK$1,000,000,000 HK$600,000,000	–	–	53.29%	53.34%	Reinsurance
Taiping Life Insurance Company, Limited	PRC	Registered capital	RMB3,730,000,000	–	–	26.67%	26.70%	Life insurance
Taiping General Insurance Company Limited (note)	PRC	Registered capital	RMB2,070,000,000 (2010: RMB1,570,000,000)	–	–	32.62%	26.70%	Property and casualty insurance
China Taiping Insurance (HK) Co. Ltd.	Hong Kong	Ordinary shares Deferred shares	HK$2,386,000,000 HK$200,000,000	–	–	53.29%	53.34%	Property and casualty insurance
Taiping Asset Management Company Limited	PRC	Registered capital	RMB100,000,000	–	–	31.97%	22.42%	Asset management business in the PRC
Taiping Pension Company Limited	PRC	Registered capital	RMB1,500,000,000 (2010: RMB800,000,000)	–	–	51.16%	26.69%	Pension
China Taiping Insurance (Macau) Co. Ltd.	Macau	Ordinary shares	MOP80,000,000	100%	100%	–	–	Property and casualty insurance

Name of company	Place/country of incorporation or registration/ operation	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of ownership interest and voting power held by the Company				Principal activities
				Directly		Indirectly		
				2011	2010	2011	2010	
China Taiping Insurance (Singapore) Pte Ltd.	Singapore	Ordinary shares	SGD50,000,000	100%	100%	–	–	Property and casualty insurance
China Taiping Insurance (UK) Co. Ltd.	United Kingdom	Ordinary shares	GBP15,000,000	100%	100%	–	–	Property and casualty insurance
Taiping Investment Holdings Company Limited	Hong Kong	Ordinary shares	HK$215,000,000	100%	100%	–	–	Investment holding
Taiping Securities Holdings (HK) Co. Ltd.	Hong Kong	Ordinary shares Non-voting deferred shares	HK$20,000,000 HK$10,000,000	100%	100%	–	–	Investment holding
Taiping Assets Management (HK) Company Limited	Hong Kong	Ordinary shares	HK$212,000,000	–	–	53.29%	53.34%	Asset management business in Hong Kong
Taiping Reinsurance Brokers Limited	Hong Kong	Ordinary shares Deferred shares	HK$4,000,000 HK$1,000,000	–	–	53.29%	53.34%	Insurance broker
Taiping Real Estate Shanghai Company Limited	PRC	Registered capital	RMB980,000,000	–	–	71.40%	71.41%	Property development
Dragon Jade Industrial District Development (Shenzhen) Company Limited	PRC	Registered capital	RMB42,800,000	100%	100%	–	–	Property development
China Taiping Insurance (NZ) Co., Ltd.	New Zealand	Ordinary shares	NZD9,027,028 (2010: NZD6,990,981)	100%	100%	–	–	Property and casualty insurance
China Taiping Insurance Service (Japan) Co., Ltd.	Japan	Ordinary shares	JPY30,000,000	100%	100%	–	–	Insurance agency

Note: In August 2011, CTIH entered into a share transfer agreement with ICBC (Asia), an independent third party of the Group, to acquire a 9.44% equity interest in TPI from ICBC (Asia) for a consideration of RMB264,000,000. The details of transaction were set out in the announcement of CTIH dated 17 August 2011.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF
CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED
中國太平保險集團(香港)有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Taiping Insurance Group (HK) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 122, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

RESTRICTION ON DISTRIBUTION AND USE*

We draw attention to the fact that the consolidated financial statements have been prepared by the management of the Group for management purpose only. As a result, the consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the Group and should not be distributed to or used by parties other than the Group without our prior written consent. We do not assume responsibility towards or accept liability to any other person for the contents of this report. All duties and liabilities (including, without limitation, those arising from negligence or otherwise) to any third party are specifically disclaimed.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

3 May 2013

* The Company has obtained consent from Deloitte Touche Tohmastu to include the independent auditor's report on the consolidated financial statements of the Guarantor as at and for the year ended 31 December 2012 in this Offering Circular.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000 (Restated)
Revenue – Gross premiums written and policy fees	6	61,163,174	51,106,054
Less: Premiums ceded to reinsurers and retrocessionaries		(2,663,035)	(2,261,523)
Net premiums written and policy fees		58,500,139	48,844,531
Changes in unearned premium reserve, net of reinsurance		(1,121,471)	(538,249)
Net earned premiums and policy fees		57,378,668	48,306,282
Net investment income	7(a)	8,717,697	6,043,371
Net realised and unrealised investment (losses) gains and impairment	7(b)	(2,001,708)	549,422
Other income	8	707,413	982,954
		64,802,070	55,882,029
Benefits, losses and expenses			
Net policyholders' benefits	9(a)	(15,925,090)	(12,204,148)
Net commission expenses	9(b)	(5,217,461)	(4,514,704)
Change in life insurance contract liabilities, net of reinsurance		(30,274,336)	(27,158,701)
Administrative and other expenses		(10,981,350)	(9,074,547)
Total benefits, losses and expenses		(62,398,237)	(52,952,100)
Share of results of associates	16	93,055	30,619
Share of result of a jointly controlled entity		9	9
Finance costs	10(a)	(705,614)	(635,063)
Profit before taxation	10	1,791,283	2,325,494
Income tax credit (charge)	11	86,265	(317,771)
Profit for the year		1,877,548	2,007,723
Other comprehensive income			
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong			
– Exchange difference arising during the year		48,019	737,882
Revaluation gain arising from transfers to investment properties from			
– Land and buildings	12	152,868	233,466
– Prepaid lease payments	14	–	313,936
– Construction in progress	18	–	72,330
– Net deferred tax	26(b)	(35,428)	(153,784)
Share of other comprehensive expenses of associates		(9)	(322)
Share of other comprehensive income of a jointly controlled entity		–	10
Available-for-sale securities			
– Net fair value changes during the year		(201,401)	(5,196,148)
– Reclassification adjustment to profit or loss on impairment		1,726,275	813,185
– Reclassification adjustment to profit or loss on disposal of securities		1,211,912	(52,527)
– Net deferred tax	26(b)	(601,462)	1,022,485
Other comprehensive income (expense) for the year, net of tax		2,300,774	(2,209,487)
Total comprehensive income (expense) for the year		4,178,322	(201,764)
Profit for the year attributable to:			
Owners of the Company		957,846	1,357,910
Non-controlling interests		919,702	649,813
		1,877,548	2,007,723
Total comprehensive income (expense) attributable to:			
Owners of the Company		1,720,959	725,505
Non-controlling interests		2,457,363	(927,269)
		4,178,322	(201,764)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (Restated)	1.1.2011 HK$'000 (Restated)
ASSETS				
Statutory deposits	27	2,606,406	2,405,861	1,525,574
Property, plant and equipment	12	4,621,362	4,460,447	3,802,228
Investment properties	13	9,293,711	8,229,112	4,813,191
Prepaid lease payments	14	164,177	167,813	693,751
Goodwill	15(a)	1,051,215	1,051,215	1,051,215
Intangible assets	15(b)	264,509	264,791	261,408
Interests in associates	16	840,868	805,007	786,372
Interest in a jointly controlled entity	17	208	199	–
Construction in progress	18	115,703	111,983	707,220
Properties held for sale	19	–	9,400	240
Investments in securities	20	161,752,020	132,420,903	104,780,542
Securities purchased under resale agreements	34	80,163	119,279	53,471
Insurance debtors	21	2,834,486	2,270,066	1,591,375
Reinsurers' share of insurance contract provisions	22	3,047,112	3,004,969	2,441,416
Policyholder account assets in respect of unit-linked products	23	3,141,049	3,729,117	4,909,273
Other debtors	24	8,493,129	5,399,614	6,122,667
Amounts due from group companies	25(a)	2,990,980	2,655,073	2,300,949
Tax recoverable	26(a)	25,737	–	3,157
Deferred tax assets	26(b)	144,029	159,276	153,373
Derivative financial instruments	39	24	–	–
Pledged bank deposits	28	295,355	256,045	229,481
Deposits at banks with original maturity more than three months		36,444,809	17,704,336	11,626,500
Cash and cash equivalents	29	19,652,046	19,974,510	17,952,585
		257,859,098	205,199,016	165,805,988
Asset classified as held for sale		–	–	11,131
Total assets		257,859,098	205,199,016	165,817,119
LIABILITIES				
Life insurance contract liabilities	30	121,422,778	91,195,983	60,391,614
Unearned premium reserve	31	6,655,614	5,160,021	4,396,739
Outstanding claims reserve	32	11,324,423	10,539,544	8,783,140
Investment contract liabilities	33	25,981,726	31,368,490	36,278,241
Securities sold under repurchase agreements	34	35,426,815	19,618,855	9,829,946
Interest-bearing notes	35(a)	13,334,736	11,040,734	10,231,074
Bank loans and other borrowings	35(b)	4,329,965	3,729,632	4,127,820
Insurance creditors	36	4,602,952	3,128,129	2,057,678
Other creditors and accrued charges	37	4,599,974	4,030,911	3,055,407
Amounts due to group companies	25(b)	36,587	45,048	–
Tax payable	26(a)	329,135	363,048	501,372
Deferred tax liabilities	26(b)	1,711,816	1,290,002	1,965,339
Insurance protection fund	38	62,480	33,847	50,264
Derivative financial instruments	39	6,528	45,005	99,269
Total liabilities		229,825,529	181,589,249	141,767,903
Net assets		28,033,569	23,609,767	24,049,216

	NOTES	31.12.2012	31.12.2011	1.1.2011
		HK$'000	HK$'000	HK$'000
			(Restated)	(Restated)
Capital and reserves				
Share capital	41	3,594,500	3,594,500	3,594,500
Reserves	42	10,998,487	9,276,237	8,737,185
Equity attributable to owners of the Company		14,592,987	12,870,737	12,331,685
Employee share-based compensation reserve of a subsidiary	42	23,186	22,890	52,662
Non-controlling interests	42	13,417,396	10,716,140	11,664,869
Total equity		28,033,569	23,609,767	24,049,216

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	Attributable to owners of the Company										
		Share capital	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Note a)	(Note b)	(Note c)	(Note d)		(Note e)		(Note f)		
Balance at 1 January 2011 as previously stated		3,594,500	1,103,551	734,370	592,718	64,880	6,154,539	32,466	12,277,024	52,662	11,616,914	23,946,600
Effect of change in accounting policy	3	–	–	–	–	–	54,661	–	54,661	–	47,955	102,616
Balance at 1 January 2011, as restated		3,594,500	1,103,551	734,370	592,718	64,880	6,209,200	32,466	12,331,685	52,662	11,664,869	24,049,216
Profit for the year		–	–	–	–	–	1,357,910	–	1,357,910	–	649,813	2,007,723
Other comprehensive income (expense) for the year		–	–	284,381	(1,065,320)	148,534	–	–	(632,405)	–	(1,577,082)	(2,209,487)
Total comprehensive income (expense) for the year		–	–	284,381	(1,065,320)	148,534	1,357,910	–	725,505	–	(927,269)	(201,764)
Equity settled share-based transactions		–	(3,258)	–	–	–	2,460	30,658	29,860	(29,772)	12,721	12,809
Acquisition of additional interests in subsidiaries	47(a)	–	(247,513)	–	–	–	–	–	(247,513)	–	(101,752)	(349,265)
Contribution from parent		–	–	–	–	–	–	31,200	31,200	–	–	31,200
Capital contribution made to subsidiaries		–	–	–	–	–	–	–	–	–	67,571	67,571
At 31 December 2011		3,594,500	852,780	1,018,751	(472,602)	213,414	7,569,570	94,324	12,870,737	22,890	10,716,140	23,609,767
Profit for the year		–	–	–	–	–	957,846	–	957,846	–	919,702	1,877,548
Other comprehensive income for the year		–	–	44,923	687,588	30,602	–	–	763,113	–	1,537,661	2,300,774
Total comprehensive income for the year		–	–	44,923	687,588	30,602	957,846	–	1,720,959	–	2,457,363	4,178,322
Equity settled share-based transactions		–	(843)	–	–	–	1,953	181	1,291	296	5,469	7,056
Capital contribution made to subsidiaries		–	–	–	–	–	–	–	–	–	238,424	238,424
At 31 December 2012		3,594,500	851,937	1,063,674	214,986	244,016	8,529,369	94,505	14,592,987	23,186	13,417,396	28,033,569

Notes:

(a) Capital reserve

The capital reserve balance as at 1 January 2011 represents primarily the difference between the nominal value of the shares of the subsidiaries acquired prior to 1 January 2011 and the nominal value of the shares issued by the Company as the consideration for acquisition. The capital reserve movements during the year ended 31 December 2011 represent the net changes of the carrying amounts of subsidiaries as a result of reorganisation attributable to owners of the Company and non-controlling interests.

(b) Exchange reserve

The exchange reserve is comprised of all foreign exchange differences arising from the translation of the financial statements of the operations outside Hong Kong into the Group presentation currency. The reserve is dealt with in accordance with the accounting policies set out in note 3.

(c) Fair value reserve

The fair value reserve is comprised of the cumulative net changes in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 3.

(d) Revaluation reserve

The revaluation reserve represents the restatement of fair value of property arising from the additional acquisition of Taiping General Insurance Company Limited ("TPI") relating to previously held interest in TPI as an associate, and the restatement of carrying amount of certain properties to fair value on transfer from land and buildings, prepaid lease payments and construction in progress to investment properties.

(e) Other reserves

Other reserves comprise capital contribution reserve and shares held for share award scheme of subsidiaries.

The capital contribution reserve represents the imputed interest on loan from the ultimate holding company calculated with reference to Hong Kong Accounting Standards 39 “Financial instruments: Recognition and measurement” and deemed contribution through transferring of amount due from a group company at a discount by the immediate holding company.

The shares held for share award scheme of subsidiaries is the consideration paid, including any directly attributable incremental costs for purchase of share of subsidiaries under the share award scheme of subsidiaries adopted on 10 September 2007.

(f) Employee share-based compensation reserve of a subsidiary

The employee share-based compensation reserve is comprised of the fair value of the actual or estimated number of unexercised share options and unvested awarded shares granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 3.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 HK$'000	2011 HK$'000 (Restated)
Operating activities			
Profit before taxation		1,791,283	2,325,494
Adjustments for:			
Amortisation of prepaid lease payments		3,591	8,148
Amortisation of intangible assets		282	141
Changes in fair value of investment properties		(758,298)	(1,342,952)
Depreciation		328,037	332,168
Dividend income		(933,391)	(348,132)
Employee share-based compensation benefits		7,056	12,809
Finance costs		705,614	635,063
Net interest expenses on securities sold/purchased under repurchase/resale agreements		579,235	252,523
Net impairment loss recognised in profit or loss		1,667,339	772,447
Interest income		(8,144,042)	(5,829,315)
Net gain on disposal of associates		–	(386,158)
Net gain on disposal of completed properties held for sale		–	(741)
Net gain on disposal of property, plant and equipment		(23,407)	(36)
Net gain on disposal of investment properties		(540)	(16,329)
Net realised loss (gain) on investments in held-to-maturity and available-for-sale securities		1,124,181	(54,285)
Share of results of associates		(93,055)	(30,619)
Share of result of a jointly controlled entity		(9)	(9)
Operating loss before changes in working capital		(3,746,124)	(3,669,783)
Increase in insurance debtors		(563,504)	(672,835)
Increase in other debtors		(1,927,858)	(124,691)
(Increase) decrease in held-for-trading securities		(946,080)	369,618
Increase in securities designated at fair value through profit or loss		(617,976)	(27,464)
Decrease in derivative financial instruments		(38,501)	(54,264)
Increase in insurance creditors		1,474,823	1,070,451
Increase in other creditors and accrued charges		604,162	357,709
Increase in reinsurers' share of insurance contract provisions		(41,187)	(523,290)
Decrease in policyholder account assets in respect of unit-linked products		588,068	1,180,156
Increase in life insurance contract liabilities		30,141,537	27,180,640
Increase in unearned premium reserve		1,495,018	613,879
Increase in outstanding claims reserve		781,471	1,621,899
Decrease in investment contract liabilities		(5,362,719)	(6,558,881)
Increase (decrease) in insurance protection fund		28,633	(16,417)
Cash generated from operations		21,869,763	20,746,727
Income tax paid		(262,072)	(354,335)
Net cash generated from operating activities		21,607,691	20,392,392

	NOTES	2012 HK$'000	2011 HK$'000 (Restated)
Investing activities			
Dividend received		933,391	348,132
Interest received		7,352,788	5,415,641
Proceeds from disposals of property, plant and equipment		165,181	2,118
Payments for acquisition of investment properties		(272,033)	(164,543)
Proceeds from disposals of investment properties		15,503	39,194
Proceeds from disposals of properties held for sale		9,400	981
Increase in amounts due from group companies		(332,815)	(322,924)
Increase in statutory deposits		(200,545)	(880,287)
Increase in pledged deposits at banks		(39,310)	(26,564)
Increase in deposits at banks with original maturity more than three months		(18,740,473)	(6,077,836)
Payments for acquisition of property, plant and equipment		(858,326)	(265,977)
Payments for acquisition of prepaid lease payments		–	(52,976)
Payments for acquisition of intangible assets		–	(3,524)
Payments for construction costs incurred		(58,367)	(192,148)
Payments for purchase of investments classified as loans and receivables, held-to-maturity and available-for-sale		(48,487,741)	(49,795,331)
Payment for acquisition of a jointly controlled entity		–	(180)
Proceeds from disposals of investments classified as loans and receivables, held-to-maturity and available-for-sale		20,525,716	21,549,436
Decrease (increase) in securities purchased under resale agreements		39,116	(65,808)
Dividend from associates		–	11,995
Proceeds from disposal of an associate		–	397,289
Capital distribution from an associate		36,745	7,757
Net cash inflow from disposal of a subsidiary		–	1,267,914
Net cash used in investing activities		(39,911,770)	(28,807,641)
Financing activities			
Increase in securities sold under repurchase agreements		15,807,960	9,788,909
Capital contributed by non-controlling interests of subsidiaries		238,424	67,571
Increase in amount due to group companies		1,202	45,048
Payment for acquiring additional interest in subsidiaries		–	(110,832)
Interest paid		(673,459)	(602,908)
Proceeds from sales of interest of a subsidiary		–	54,647
Interest on securities sold under repurchase agreements		(579,235)	(252,523)
Proceeds from interest-bearing notes issued		2,298,143	370,050
Increase (decrease) in bank and other borrowings		600,333	(398,188)
Net cash generated from financing activities		17,693,368	8,961,774
Effect of change in exchange rates		288,247	1,475,400
Net (decrease) increase in cash and cash equivalents		(322,464)	2,021,925
Cash and cash equivalents at 1 January	29	19,974,510	17,952,585
Cash and cash equivalents at 31 December, represented by bank balances and cash	29	19,652,046	19,974,510

1. General

The Company is a private limited company incorporated in Hong Kong. Its immediate and ultimate holding company is China Taiping Insurance Group Co. ("TPG"), which is incorporated in the People's Republic of China (the "PRC"). The address of the registered office and principal place of business of the Company is 22/F., China Taiping Tower Phase 1, 8 Sunning Road, Causeway Bay, Hong Kong.

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

The Company is an investment holding company. The Company's subsidiaries are mainly engaged in life insurance business, property and casualty insurance business, reinsurance business and other businesses which comprise asset management business, E-commerce for insurance, insurance intermediary business, pension business and property development business. Details of the principal activities of the Company's subsidiaries are set out in note 49.

The consolidated financial statements are not statutory accounts and are prepared in accordance with the requirement of Hong Kong Accounting Standard 27 (Revised) Consolidated and Separate Financial Statements and for the management purposes only.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

New and revised HKFRSs applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax – Recovery of underlying assets
Amendments to HKAS 1	Presentation of financial statements (as part of the annual improvements to HKFRSs 2009-2011 cycle issued in June 2012)
Amendments to HKFRS 7	Financial instrument disclosures – Transfers of financial assets

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 "Deferred tax – Recovery of underlying assets"

Under the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that all investment properties of the Group located in Hong Kong, Macau and Singapore are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted with respect to those properties located in Hong Kong. For those investment properties of the Group located in the PRC, they are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, and therefore the presumption is rebutted.

As a result of the application of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of the Group's investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The directors consider that the impact of the adoption of the amendments to HKAS 12 is insignificant for prior years and current period, and accordingly, the amendments to HKAS 12 have not been applied retrospectively and cumulative effects have been recognised in current year's profit or loss.

Amendments to HKAS 1 Presentation of financial statements
(as part of the annual improvements to HKFRSs 2009-2011 cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is "Annual improvements to HKFRSs (2009-2011 cycle)". The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group changed the accounting policy in relation to the method of computation of unearned premium provisions (see note 3), which has resulted in a material effect on the information in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 with the related notes.

Amendments to HKFRS 7 "Disclosures – Transfers of financial assets"

The Group has applied for the first time the amendments to HKFRS 7 "Disclosures – Transfers of financial assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group entered into repurchase agreements with an entity to sell held-to-maturity securities and available-for-sale securities subject to a master agreement to repurchase these securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these held-to-maturity securities and available-for-sale securities, it continues to recognise the full carrying amounts of the held-to-maturity securities and available-for-sale securities, and has recognised the cash received on the transfer as financial assets sold under repurchase agreements. The relevant disclosures have been made regarding the transfer of these held-to-maturity securities and available-for-sale securities on application of the amendments to HKFRS 7 *(see Note 34).*

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

Annual improvements to HKFRSs 2009-2011 cycle issued in June 2012

The annual improvements to HKFRSs 2009-2011 cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 "Property, plant and equipment" and the amendments to HKAS 32 "Financial instruments: Presentation".

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors anticipate that the application of the amendments will not have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 "Income taxes".

Amendments to HKAS 32 "Offsetting financial assets and financial liabilities" and amendments to HKFRS 7 "Disclosures – Offsetting financial assets and financial liabilities"

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required. It is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at mortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9, as amended, will be effective for annual periods beginning on or after 1 January 2015, with early adoption permitted. The Group is considering the implications of HKFRS 9, the impact on the Group and timing of its adoption by the Group. The directors anticipate that the application of the new Standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) – INT 13 "Jointly controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Except as described above, the directors anticipate that the application of the other new and revised HKFRS will not have material impact on the Group's financial performance and positions for the coming financial years and/or on the disclosures set out in these consolidated financial statements.

3. Significant accounting policies, changes in accounting policies and restatement

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, that are measured at fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of consideration given in exchange for goods.

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance effective from 1 January 2011 onwards.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

On acquisition of additional interest in subsidiaries, the difference between the cost of additional interest acquired and decrease in the carrying amount of the non-controlling interest is recorded in capital reserve.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When certain assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

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

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment of non-financial assets other than goodwill below).

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on non-financial assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 "Non-current assets held for sale and discontinued operations") or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 "Financial instruments: Recognition and measurement"). Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

Gross premiums written from insurance contracts

The accounting policies for the recognition of revenue from insurance contracts are disclosed in the sub-section under the heading "recognition and measurement of contracts" in note 3.

Policy fee income from investment contracts

Fees from investment contracts or investment components of insurance contracts are recognised as revenue in the period in which the services are provided.

Rental income from operating leases

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

Dividend income

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established.

Reinsurance commission income

Reinsurance commission income is recognised as income on the effective commencement or renewal dates of the related reinsurance contracts.

Securities commission and brokerage income

Securities commission and brokerage income is recorded as income, on a trade date basis, when the services are rendered.

Income from asset and property management, insurance intermediary and pension administration businesses

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

Interest income

Interest income from a financial asset including financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurements" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the net investment income in note 7. Fair value is determined in the manner described in note 45.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amounts due from group companies, other debtors, statutory deposits, pledged bank deposits and deposits at banks with original maturity more than three months and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in fair value reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, other debtors and amounts due from group companies, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered to be uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in fair value reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instrument issued by the Group are recognised at proceeds received, net of direct issue cost.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liabilities are either held for trading or it is those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The gains or losses recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including bank loans and other borrowings, interest-bearing notes and other creditors are subsequently measured at amortised cost, using the effective interest method.

Sales and repurchase/purchase and resale agreements

Securities sold under repurchase agreements represent short-term financing arrangements secured by the securities sold. The securities remain on the consolidated statement of financial position and a liability is recorded in respect of the consideration received. Interest is calculated based upon the effective interest method. The securities sold under repurchase agreements are carried in the consolidated statement of financial position at amortised cost.

Securities purchased under resale agreements represent short-term lending arrangements secured by the securities purchased. The securities purchased are not recognised as financial assets on the consolidated statement of financial position and the consideration paid is recorded as securities purchased under resale agreements and carried in the consolidated statement of financial position at amortised cost. Interest is calculated using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction. Investment properties under construction are measured at fair value at the end of the reporting period. Any difference between the fair value of the investment properties under construction and their carrying amounts is recognised in profit or loss in the period in which they arise.

Leasehold land and buildings originally classified as investment properties under construction carried at fair value are transferred to construction in progress at a deemed cost equal to their fair value at the date of change in use.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Properties in the course of construction for administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating leases payments are recognised as expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Impairment losses on non-financial assets other than goodwill (see the accounting policies in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Cash and cash equivalents

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

When the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will be transferred to retained profits.

Shares held for share award scheme of subsidiaries

Where the shares of subsidiaries are acquired under the share award scheme of subsidiaries, the consideration paid, including any directly attributable costs, is presented as "other reserves" and deducted from total equity.

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

Where the shares held for share award scheme are revoked and the revoked shares are disposed of the related gain or loss is transferred to retained profits, and no gain or loss is recognised in the profit or loss.

Where the cash or non-cash dividend distribution is declared in respect of the shares held for share award scheme, the cash or fair value of the non-cash dividend is transferred to retained profits, and no gain or loss is recognised in the profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Assets classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Classification of contracts

Insurance contracts

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

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

Some contracts of the Group have both the insurance and investment components. These contracts are required to be unbundled into the respective components as disclosed in the sub-section under the heading “Unbundling” in note 3.

Investment contracts

Insurance policies that are not considered insurance contracts under HKFRS 4 are classified as investment contracts, which will be accounted for under HKAS 39.

Recognition and measurement of contracts

Recognition of gross premiums written

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

Gross premiums written in respect of life insurance contracts are recognised as revenue when due from policyholders. Gross premiums written from short-term accident and health insurance contracts are recognised when written.

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

Gross premiums written in respect of investment contracts and the investment component of unbundled contracts are accounted for as deposits and booked directly to a liability account.

Life insurance contract liabilities

Life insurance contract liabilities, other than universal life and unit-linked insurance contracts, are determined using a gross premium approach plus a residual margin. Under the gross premium approach, the assumptions used in the actuarial valuation of life insurance contract liabilities reflect the management’s assessment of the expected best estimate of future policy cash flows subject to market based allowance for risk. The residual margin is estimated so that, after considering the effects of acquisition costs related to the acquisition of new business, including but not limited to commissions, underwriting, marketing and policy issue expenses, no gain or loss will be recognised on the initial recognition of the life insurance contract. Profits are expected to emerge over the life of the insurance contracts as the residual margins are released over the life of the contracts in proportion to insurance policies in force and allowance for risk is released.

Unearned premium reserve

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

Outstanding claims reserve

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

Liability adequacy test

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

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

Investment contract liabilities

Investment contract liabilities of the Group include the liabilities arising from investment contracts that carry no significant insurance risk and also investment components of universal life contracts and unit-linked contracts. Insurance policies which do not meet the definition of an insurance contract are investment contracts and are carried at amortised cost or estimated fair value.

The liability of investment portion of an unbundled universal life contract is measured at amortised cost using effective interest rate while the liability of investment portion of an unbundled unit-linked contract is measured at fair value. The liability for the insurance component is calculated as the excess, if positive, of a gross premium liability over the account value. The liabilities of the insurance component of universal life contracts and unit-linked contracts are minimal and accordingly, the entire contracts are classified as investment contracts.

The assets related to unit-linked contracts are presented as "policyholder account assets in respect of unit-linked products" and are segregated from the rest of the Group's assets for presentation purpose.

Policyholders' benefits

Policyholders' benefits include maturities, annuities, surrenders, claims and claims handling expenses, and policyholder dividend allocated in anticipation of a dividend declaration. Maturity and annuity claims are recognised as an expense when due for payment. Surrender claims are recognised when paid. Claims are recognised when notified but not settled and an estimate is made for claims incurred but not reported at the reporting date and related claims handling expenses. Policyholder dividends are recognised when declared.

Embedded derivatives in insurance contracts

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

Unbundling

The Group unbundles the investment component of insurance contracts when the Group can measure separately the investment component. Receipts and payments such as premiums, policy benefits and claims relating to the investment component, except for the policy fee income which is recognised in accordance with HKAS 18, are not recognised in the consolidated statement of comprehensive income but as financial assets and financial liabilities. The financial assets or financial liabilities arising from the investment component are accounted for under HKAS 39.

Insurance debtors

Insurance debtors are initially recognised at fair value and thereafter stated at amortised cost using effective interest rate method less allowance for impairment. The impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material. The carrying amount is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an insurance debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Insurance creditors

Insurance creditors are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method.

Reinsurance

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

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

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing cost are recognised in profit or loss in the year in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes/the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Provisions and contingent liabilities

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

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

Changes in accounting policies and restatement

Computation of Unearned Premium Provisions

In the current year, there is a change in the accounting policy in relation to the method of computation of unearned premium provisions for Reinsurance Business. In prior years, the acquisition costs of the reinsurance contracts were fully charged to profit or loss when the reinsurance contracts were entered into during the period. Under the new accounting policy, the acquisition costs of the reinsurance contracts are deferred and amortized throughout the coverage period of the reinsurance contracts in order to match with the recognition of premiums written. Such deferred acquisition costs are directly deducted from the unearned premium provisions at the end of each reporting period. After the change, the method of computation of unearned premium provisions of the Reinsurance Business will be consistent with other insurance business of the Group and be more comparable with other industry players to provide the best estimation of insurance liabilities.

The effects of the change in accounting policy on the results for the year ended 31 December 2012 are as follows:

	2012
	HK$'000
Decrease in change in unearned premium provisions, net of reinsurance	47,559
Increase in profit for the year	47,559
Attributable to:	
Owners of the Company	25,333
Non-controlling interests	22,226
	47,559

The effects of the change in accounting policy on the financial position of the Group as at 31 December 2012 are as follows:

	2012
	HK$'000
Decrease in reinsurers' share of insurance contract provisions	(60,952)
Decrease in unearned premium provisions	263,455
Increase in net assets	202,503
Attributable to:	
Owners of the Company	107,869
Non-controlling interests	94,634
	202,503

The effects of the above change in accounting policy on the consolidated income statement for the year ended 31 December 2011 are summarised below:

	31 December 2011 (Originally stated)	Adjustment	31 December 2011 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
Revenue-Gross premiums written and policy fees	51,106,054	–	51,106,054
Less: Premiums ceded to reinsures and retrocessionaries	(2,261,523)	–	(2,261,523)
Net premiums written and policy fees	48,844,531	–	48,844,531
Changes in unearned premium reserve, Net of reinsurance	(590,577)	52,328	(538,249)
Net earned premiums and policy fees	48,253,954	52,328	48,306,282
Net investment income	6,043,371	–	6,043,371
Net realised and unrealised investment gains and impairment	549,422	–	549,422
Other income	982,954	–	982,954
	55,829,701	52,328	55,882,029
Benefits, losses and expenses			
Net policyholders' benefits	(12,204,148)	–	(12,204,148)
Net commission expenses	(4,514,704)	–	(4,514,704)
Change in life insurance contract liabilities, net of reinsurance	(27,158,701)	–	(27,158,701)
Administrative and other expenses	(9,074,547)	–	(9,074,547)
Total benefits, losses and expenses	(52,952,100)	–	(52,952,100)
Share of results of associates	30,619	–	30,619
Share of result of a jointly controlled entity	9	–	9
Finance costs	(635,063)	–	(635,063)
Profit before taxation	2,273,166	52,328	2,325,494
Income tax charge	(317,771)	–	(317,771)
Profit for the year	1,955,395	52,328	2,007,723
Attributable to:			
Owners of the Company	1,330,035	27,875	1,357,910
Non-controlling interests	625,360	24,453	649,813
	1,955,395	52,328	2,007,723

The effects of the above change in accounting policy on the consolidated statement of financial position as at 31 December 2011 are summarised below:

	As at 31 December 2011 (Originally stated)	Adjustment	As at 31 December 2011 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Statutory deposits	2,405,861	–	2,405,861
Property, plant and equipment	4,460,447	–	4,460,447
Investment properties	8,229,112	–	8,229,112
Prepaid lease payments	167,813	–	167,813
Goodwill	1,051,215	–	1,051,215
Intangible assets	264,791	–	264,791
Interests in associates	805,007	–	805,007
Interests in jointly controlled entity	199	–	199
Construction in progress	111,983	–	111,983
Properties held for sale	9,400	–	9,400
Investments in securities	132,420,903	–	132,420,903
Securities purchased under resale agreements	119,279	–	119,279
Insurance debtors	2,270,066	–	2,270,066
Reinsurers' share of insurance contract provisions	3,016,740	(11,771)	3,004,969
Policyholder account assets in respect of unit-linked products	3,729,117	–	3,729,117
Other debtors	5,399,614	–	5,399,614
Amounts due from group companies	2,655,073	–	2,655,073
Deferred tax assets	159,276	–	159,276
Pledged bank deposits	256,045	–	256,045
Deposits at bank with original maturity more than three months	17,704,336	–	17,704,336
Cash and cash equivalents	19,974,510	–	19,974,510
	205,210,787	(11,771)	205,199,016

	As at 31 December 2011 (Originally stated)	Adjustment	As at 31 December 2011 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
LIABILITIES			
Life insurance contract liabilities	91,195,983	–	91,195,983
Unearned premium reserve	5,326,736	(166,715)	5,160,021
Outstanding claims reserve	10,539,544	–	10,539,544
Investment contract liabilities	31,368,490	–	31,368,490
Securities sold under repurchase agreements	19,618,855	–	19,618,855
Interest-bearing notes	11,040,734	–	11,040,734
Bank loans and other borrowings	3,729,632	–	3,729,632
Insurance creditors	3,128,129	–	3,128,129
Other creditors and accrued charges	4,030,911	–	4,030,911
Amounts due to group companies	45,048	–	45,048
Tax payable	363,048	–	363,048
Deferred tax liabilities	1,290,002	–	1,290,002
Insurance protection fund	33,847	–	33,847
Derivative financial instruments	45,005	–	45,005
	181,755,964	(166,715)	181,589,249
Net assets	23,454,823	154,944	23,609,767
Capital and reserves			
Share capital	3,594,500	–	3,594,500
Reserves	9,193,701	82,536	9,276,237
Equity attributable to owners of the Company	12,788,201	82,536	12,870,737
Employee share-based compensation reserve of a subsidiary	22,890	–	22,890
Non-controlling interest	10,643,732	72,408	10,716,140
Total equity	23,454,823	154,944	23,609,767

The effects of the above change in accounting policy on the consolidated statement of financial position as at 1 January 2011 are summarised below:

	As at 1 January 2011 (Originally stated)	Adjustment	As at 1 January 2011 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Statutory deposits	1,525,574	–	1,525,574
Property, plant and equipment	3,802,228	–	3,802,228
Investment properties	4,813,191	–	4,813,191
Prepaid lease payments	693,751	–	693,751
Goodwill	1,051,215	–	1,051,215
Intangible assets	261,408	–	261,408
Interests in associates	786,372	–	786,372
Construction in progress	707,220	–	707,220
Properties held for sale	240	–	240
Investments in securities	104,780,542	–	104,780,542
Securities purchased under resale agreement	53,471	–	53,471
Insurance debtors	1,591,375	–	1,591,375
Reinsurers' share of insurance contract provisions	2,452,076	(10,660)	2,441,416
Policyholder account assets in respect of unit-linked products	4,909,273	–	4,909,273
Other debtors	6,122,667	–	6,122,667
Amounts due from group companies	2,300,949	–	2,300,949
Tax recoverable	3,157	–	3,157
Deferred tax assets	153,373	–	153,373
Pledged bank deposits	229,481	–	229,481
Deposits at bank with original maturity more than three months	11,626,500	–	11,626,500
Cash and cash equivalents	17,952,585	–	17,952,585
Assets classified as held for sale	11,131	–	11,131
	165,827,779	(10,660)	165,817,119

	As at 1 January 2011 (Originally stated)	Adjustment	As at 1 January 2011 (Restated)
	HK$'000	*HK$'000*	*HK$'000*
LIABILITIES			
Life insurance contract liabilities	60,391,614	–	60,391,614
Unearned premium reserve	4,510,015	(113,276)	4,396,739
Outstanding claims reserve	8,783,140	–	8,783,140
Investment contract liabilities	36,278,241	–	36,278,241
Securities sold under repurchase agreements	9,829,946	–	9,829,946
Interest-bearing notes	10,231,074	–	10,231,074
Bank loans and other borrowings	4,127,820	–	4,127,820
Insurance creditors	2,057,678	–	2,057,678
Other creditors and accrued charges	3,055,407	–	3,055,407
Tax payable	501,372	–	501,372
Deferred tax liabilities	1,965,339	–	1,965,339
Insurance protection fund	50,264	–	50,264
Derivative financial instruments	99,269	–	99,269
	141,881,179	(113,276)	141,767,903
Net assets	23,946,600	102,616	24,049,216
Capital and reserves			
Share capital	3,594,500	–	3,594,500
Reserves	8,682,524	54,661	8,737,185
Equity attributable to owners of the Company	12,277,024	54,661	12,331,685
Employee share-based compensation reserve of a subsidiary	52,662	–	52,662
Non-controlling interest	11,616,914	47,955	11,664,869
Total equity	23,946,600	102,616	24,049,216

4. Insurance, Financial and Capital Risk Management

Risk management objectives and policies for mitigating insurance risk

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

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

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

Underwriting strategy

Life insurance business

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

Property and casualty insurance business

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

Reinsurance business

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

Reinsurance strategy

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

Asset and liability matching

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

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

- actively seeking to acquire longer dated fixed rate debt investments with an acceptable level of yield;

- upon the maturity dates of fixed rate debt investments, rolling over the proceeds to longer dated fixed rate debt investments;

- disposing of some of the shorter dated fixed rate debt investments, particularly those with lower yields, and rolling over the proceeds to longer dated fixed rate debt investments; and

- investing in equities for the long term.

Reserves adequacy

The Group exercises great care and effort in setting up the reserves for its reinsurance and property and casualty insurance businesses. The reserves are estimated by the Group, using actuarial methods such as loss development methods and/or the Bornhuetter-Ferguson methods. The adequacy of reserves is regularly reviewed.

The determination of the Group's reserves for its life insurance business are based on realistic assumptions of mortality and morbidity rates, returns on investment, persistency rates and policy maintenance expenses after reasonable and prudent adjustments for adverse deviation to ensure adequacy of reserves on a going concern basis.

Insurance risks

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

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

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

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

Property and casualty insurance business

(1) Management of risks

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

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

(2) Concentration of insurance risks

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

The concentration of insurance risk by classes of business and geographical distribution, with reference to the gross premiums written in the years ended 31 December 2012 and 2011, are summarised below.

	Percentage to total gross premiums written	
	2012	**2011**
By business line:		
Motor insurance	70.1%	67.2%
Marine insurance	4.1%	4.0%
Others	25.8%	28.8%
	100.0%	100.0%
By geographical territory:		
Hong Kong and Macau	12.4%	13.9%
The PRC	81.8%	78.6%
Rest of Asia	3.8%	4.7%
Europe	1.6%	2.0%
Others	0.4%	0.8%
	100.0%	100.0%

Reinsurance business

(1) Management of risks

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

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

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

(2) Concentration of insurance risks

Concentration of risk arises from the accumulation of risks within a particular business line and geographic area. The Group's key methods in managing these risks are diversification of the business line and areas where the gross premiums are written. The tables below indicate the gross premiums written by business line and geographical distribution for the years ended 31 December 2012 and 2011.

	Percentage to total gross premiums written	
	2012	**2011**
By business line:		
Proportional treaty	66.2%	68.2%
Non-proportional treaty	25.9%	24.3%
Facultative	7.9%	7.5%
	100.0%	100.0%
By geographical territory:		
Hong Kong and Macau	12.6%	20.6%
Mainland China & Taiwan	44.3%	37.1%
Japan	6.1%	5.3%
Rest of Asia	19.5%	19.7%
Europe	11.1%	11.4%
Others	6.4%	5.9%
	100.0%	100.0%

Life insurance business

(1) Management of risks

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

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

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

(2) Concentration of insurance risks

Concentration risk is the risk of incurring a major loss as a result of significant mortality or other insurance coverage on a particular person or a group of persons due to the same event. The Group manages the concentration of insurance risks by way of reinsurance arrangements with a maximum retention risk of RMB500,000 per person for life and personal accident policies and RMB200,000 for critical illness insurance. In addition, the Group purchases catastrophe protection for losses arising from claims involving multiple lives from the same event. The maximum retention risk is RMB1 million for each and every loss occurrence, and the total coverage is RMB100 million for each and every loss occurrence. The Group purchases surplus treaties and proportional treaties to cover life, accident and long term health risks. In addition, an excess of loss reinsurance contract is applied for any reinsurance contract with significant sum insured.

The distribution of sum insured is summarised as follows:

	Before reinsurance		After reinsurance	
RMB'000	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
0 – 200	97.22%	98.04%	97.89%	98.27%
201 – 500	2.41%	1.71%	2.11%	1.73%
501 – 750	0.10%	0.06%	–	–
751 – 1,000	0.16%	0.13%	–	–
1,001 – 1,500	0.03%	0.03%	–	–
1,501 – 2,000	0.00%	0.02%	–	–
2,001 – 2,500	0.02%	0.00%	–	–
> 2,500	0.06%	0.01%	–	–
	100.00%	100.00%	100.00%	100.00%

Financial risk management objectives and policies

Categories of financial instruments and insurance assets and liabilities

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
		(Restated)
Financial assets		
Loans and receivables (including cash and cash equivalents)	92,541,404	60,439,387
Held-to-maturity investments	92,477,410	83,755,934
Available-for-sale investments	44,703,765	36,966,163
Financial assets at fair value through profit or loss:		
– Included in "policyholder account assets in respect of unit-linked products"	2,440,676	2,314,413
– Held-for-trading investments	1,635,424	689,346
– Designated as fair value through profit or loss	800,224	198,761
– Derivative financial instruments	24	–
Financial liabilities		
Derivative financial instruments	6,528	45,005
Financial liabilities at fair value through profit or loss		
– Included in "investment contract liabilities"	3,141,049	3,729,117
Amortised cost	78,520,518	64,682,362
Insurance assets		
Insurance debtors	2,834,486	2,270,066
Reinsurer's share of insurance contract provisions	3,047,112	3,004,969
Insurance liabilities		
Life insurance contract liabilities	121,422,778	91,195,983
Outstanding claims reserve	11,324,423	10,539,544
Insurance creditors	4,602,952	3,128,129

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

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

Market risk

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

Interest rate risk

Interest rate risk is risk to the cash flows or market value of an interest-bearing financial instrument due to uncertain future market interest rates.

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

Fair value interest rate risk

The Group is exposed to fair value interest rate risk relating to the interest rate swaps and fixed-rate debt securities.

As at 31 December 2012, it is estimated that an increase/decrease of 100 basis points in interest rates of the interest rate swaps, with all other variables held constant, would increase/decrease the Group's post-tax profit for the year by approximately HK$1,268,000 (31.12.2011: HK$14,634,000).

An increase/decrease of 50 basis points in interest rates of the debt securities classified as available-for-sale with all other variables held constant, would decrease/increase the Group's total equity by approximately 0.6% of the total investments held by the Group as at 31 December 2012 (31.12.2011: 0.5%).

An increase/decrease of 50 basis points in interest rates of the debt securities classified as held-for-trading and securities designated at fair value through profit or loss with all other variables held constant, would decrease/increase the Group's net profit by approximately 0.3% for the year ended 31 December 2012 (2011: 0.1%).

The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The basis point increase or decrease as stated above is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate. The analysis is performed on the same basis for 2011.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank loans, amounts due from group companies and bank deposits. The cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's bank loans and bank deposits. The Group has entered into several interest rate swaps to reduce the cash flow interest rate risk. The management considers that the cash flow interest rate risk is not material. Accordingly, no sensitivity analysis has been presented on the cash flow interest rate risk.

Equity price risk

The Group has a portfolio of marketable equity securities, which is carried at fair value and is exposed to price risk. As the financial risks of unit-linked contracts are fully undertaken by the policyholders, the assets related to unit-linked products are not included in the analysis of financial risks below. Equity price risk is defined as the potential loss in market value resulting from an adverse change in prices. The Group manages the equity price risk by investing in a diverse portfolio of high quality and liquid securities.

The sensitivity analyses below are determined based on the exposure to equity price risk at the reporting date. The analyses is performed without taking into account the corresponding impact of participation features of life insurance contracts and unit-linked insurance contracts.

If the prices of the respective equity securities and investment funds had been 10% (2011: 10%) higher/lower:

- pre-tax profit for the year ended 31 December 2012 increase/decrease by HK$96,186,000 (2011: HK$31,607,000) as a result of the changes in fair values of securities designated at fair value through profit or loss and held-for-trading investments; and

- fair value reserve would increase/decrease by HK$1,174,276,000 (2011: HK$1,213,438,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Foreign exchange risk

In respect of the life insurance business and property and casualty insurance business in the PRC, premiums are received in RMB and the insurance regulation in the PRC requires the insurers to hold RMB assets, therefore the foreign exchange risk in respect of RMB for the Group's PRC operations is not significant. The capital injections from the shareholders outside the PRC were in the Hong Kong dollars and the United States dollars.

In respect of the property and casualty insurance business operating in Hong Kong, Singapore, Macau, the United Kingdom, the Netherlands and New Zealand, premiums are mainly received in the relevant domestic currencies. The Group strives to keep the assets in the same currencies with its insurance liabilities.

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

Monetary items of the entities of the Group are mostly denominated in their respective functional currencies. Therefore, the management considers that the foreign exchange risk is not material. Accordingly, no sensitivity analysis is presented.

Credit risk

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

The Group is exposed to credit risks primarily associated with bank deposits, bank balances, insurance debtors, investments in debt securities, reinsurance arrangements with reinsurers, amounts due from group companies and other debtors.

The carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position after deducting any impairment allowance represent the maximum exposure to credit risk, which will cause a financial loss to the Group, in the event of the counterparties' failure to discharge their obligations at the end of the reporting period.

To reduce the credit risks associated with the investments in debt securities, the Group has established detailed credit control policies. In addition, the risk level of the various investment sectors is continuously monitored with the investment mix adjusted accordingly. In respect of the debt securities invested by the reinsurance business, the Group restricts investments to debt securities with international credit ratings generally not below the investment grade, i.e. BBB or higher, except for certain sovereign rated securities. In respect of the debt securities invested by the life insurance and property and casualty insurance business in PRC, the investment procedures manual, which is managed by an investment committee, includes the minimum acceptable domestic credit rating of the issuers as required by the China Insurance Regulatory Commission ("CIRC"). Any non-compliance or violation of the manual will be followed up and rectification action will be taken immediately. In respect of debt securities invested by the property and casualty insurance business in Hong Kong, Macau, Singapore, United Kingdom and New Zealand, it is the Group's policy to invest in bonds with ratings of investment grade or above.

The Group does not have any significant concentration of credit risk arising from the investments in debt securities since the investment portfolio is well diversified.

The credit risk on bank balances is limited because the relevant banks are with high credit ratings.

The credit risk associated with insurance debtors and other debtors will not cause a material impact on the Group's consolidated financial statements taking into consideration the collateral held and maturity term of not more than one year as at 31 December 2012.

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

Liquidity risk

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

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

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

The following table details the Group's remaining contractual obligations for its financial and insurance liabilities based on the agreed repayment terms, except for investment contract liabilities and outstanding claims reserve which are based on expected maturity dates. For non-derivative liabilities, the table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and includes both interest and principal cash flows. For derivative instruments which are settled on a net basis, undiscounted net cash outflows are presented. The Group's overall capital management strategy remains unchanged from the prior year. The table excludes life insurance contract liabilities as assuming that all surrender and transfer options are exercised would result in all life insurance contracts being presented as falling due within one year or less.

Liquidity and interest risk tables

	Weighted average effective interest rate	Repayable on demand or 1 year or less	5 years or less but over 1 year	After 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2012
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012						
Non-derivative liabilities						
Financial liabilities:						
Investment contract liabilities	–	5,832,837	10,722,255	11,873,589	28,428,681	25,981,726
Securities sold under repurchase agreements	2.12%	35,427,052	–	–	35,427,052	35,426,815
Interest-bearing notes	5.04%	3,878,163	2,568,305	11,801,362	18,247,830	13,334,736
Bank loans and other borrowings	2.12%	701,446	3,789,910	–	4,491,356	4,329,965
Other creditors	–	4,599,974	–	–	4,599,974	4,599,974
Amounts due to group companies	–	36,587	–	–	36,587	36,587
Insurance liabilities:						
Insurance creditors	–	4,516,532	86,420	–	4,602,952	4,602,952
Outstanding claims reserve	–	5,134,930	5,245,177	944,316	11,324,423	11,324,423
		60,127,521	22,412,067	24,619,267	107,158,855	99,637,178
Derivatives settled net						
Interest rate swaps		6,528	–	–	6,528	6,528

	Weighted average effective interest rate	Repayable on demand or 1 year or less	5 years or less but over 1 year	After 5 years	Total undiscounted cash flows	Carrying amount at 31.12.2011
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011						
Non-derivative liabilities						
Financial liabilities:						
Investment contract liabilities	–	3,574,705	8,660,706	29,718,666	41,954,077	31,368,490
Securities sold under repurchase agreements	1.79%	19,645,617	–	–	19,645,617	19,618,855
Interest-bearing notes	5.23%	578,085	6,026,378	9,031,037	15,635,500	11,040,734
Bank loans and other borrowings	3.04%	9,660	4,194,000	–	4,203,660	3,729,632
Other creditors	–	4,030,911	–	–	4,030,911	4,030,911
Amounts due to group companies	–	45,048	–	–	45,048	45,048
Insurance liabilities:						
Insurance creditors	–	3,049,646	78,483	–	3,128,129	3,128,129
Outstanding claims reserve	–	6,199,236	3,482,676	857,632	10,539,544	10,539,544
		37,132,908	22,442,243	39,607,335	99,182,486	83,501,343
Derivatives settled net						
Interest rate swaps		26,141	18,864	–	45,005	45,005

Capital risk management

The Group's key business operations are the life insurance business, the property and casualty insurance business and its reinsurance business, which are conducted through its subsidiaries. The Group manages its capital to ensure that the entities conducting life insurance businesses, the property and casualty insurance business and the reinsurance business will be able to meet statutory solvency requirements in the jurisdictions in which they operate. The Group's capital management initiatives also strive to maintain a surplus for future business expansion opportunities. The Group's overall capital management strategy remains unchanged from the prior year. The Group's capital includes the components of total equity, interest-bearing notes, bank loans and other borrowings. The Group has complied with the various solvency requirements throughout both years.

Claims development

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

In view of the different business nature, the claims development for the property and casualty insurance business is analysed by accident year, while those for the reinsurance business is analysed by underwriting year.

Property and casualty insurance business

Analysis of claims development – gross of reinsurance

For the year ended 31 December 2012

	Accident year					
	2008	2009	2010	2011	2012	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	5,170,260	4,689,103	5,332,867	5,177,631	5,960,238	
One year later	4,717,827	4,789,600	4,192,019	4,719,931	–	
Two years later	4,800,452	4,185,465	4,155,692	–	–	
Three years later	4,333,435	4,131,102	–	–	–	
Four years later	4,332,420	–	–	–	–	
Estimate of cumulative claims	4,332,420	4,131,102	4,155,692	4,719,931	5,960,238	23,299,383
Cumulative payments to date	(4,085,418)	(3,712,498)	(3,517,664)	(3,505,106)	(2,787,389)	(17,608,075)
Estimate of claims expenses and discount	–	–	–	–	10,904	10,904
Liabilities recognised in the consolidated statement of financial position.	247,002	418,604	638,028	1,214,825	3,183,753	5,702,212
Liabilities in respect of accident years 2007 and before.						634,057
Provision for adverse deviation						74,823
Total liabilities included in the consolidated statement of financial position.						6,411,092

For the year ended 31 December 2011

	Accident year					
	2007	2008	2009	2010	2011	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	3,233,951	5,170,260	4,689,103	5,332,867	5,177,631	
One year later	2,999,327	4,717,827	4,789,600	4,192,019	–	
Two years later	2,922,690	4,800,452	4,185,465	–	–	
Three years later	2,919,892	4,333,435	–	–	–	
Four years later	2,796,867	–	–	–	–	
Estimate of cumulative claims	2,796,867	4,333,435	4,185,465	4,192,019	5,177,631	20,685,417
Cumulative payments to date	(2,620,632)	(3,962,677)	(3,539,387)	(3,121,684)	(2,114,486)	(15,358,866)
Estimate of claims expenses and discount	–	–	–	–	25,408	25,408
Liabilities recognised in the consolidated statement of financial position.	176,235	370,758	646,078	1,070,335	3,088,553	5,351,959
Liabilities in respect of accident years 2006 and before.						510,933
Provision for adverse deviation						91,792
Total liabilities included in the consolidated statement of financial position.						5,954,684

Analysis of claims development – net of reinsurance

For the year ended 31 December 2012

	Accident year					
	2008	**2009**	**2010**	**2011**	**2012**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	3,746,162	3,921,099	4,440,974	4,194,207	4,840,508	
One year later	3,544,968	4,044,969	3,493,723	3,815,643	–	
Two years later	3,578,536	3,505,709	3,497,954	–	–	
Three years later	3,309,446	3,476,595	–	–	–	
Four years later	3,309,077	–	–	–	–	
Estimate of cumulative claims	3,309,077	3,476,595	3,497,954	3,815,643	4,840,508	18,939,777
Cumulative payments to date	(3,129,113)	(3,169,979)	(2,997,391)	(2,927,446)	(2,419,768)	(14,643,697)
Estimate of claims expenses and discount	–	–	–	–	10,904	10,904
Liabilities recognised in the consolidated statement of financial position.	179,964	306,616	500,563	888,197	2,431,644	4,306,984
Liabilities in respect of accident years 2007 and before.						444,622
Provision for adverse deviation						36,085
Total liabilities included in the consolidated statement of financial position.						4,787,691

For the year ended 31 December 2011

	Accident year					
	2006	**2007**	**2008**	**2010**	**2011**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of accident year	2,390,124	3,746,162	3,921,099	4,440,974	4,194,207	
One year later	2,221,165	3,544,968	4,044,969	3,493,723	–	
Two years later	2,234,817	3,578,536	3,505,709	–	–	
Three years later	2,253,421	3,309,446	–	–	–	
Four years later	2,199,861	–	–	–	–	
Estimate of cumulative claims	2,199,861	3,309,446	3,505,709	3,493,723	4,194,207	16,702,946
Cumulative payments to date	(2,077,305)	(3,040,768)	(3,035,212)	(2,680,757)	(1,892,128)	(12,726,170)
Estimate of claims expenses and discount	–	–	–	–	25,408	25,408
Liabilities recognised in the consolidated statement of financial position.	122,556	268,678	470,497	812,966	2,327,487	4,002,184
Liabilities in respect of accident years 2006 and before.						371,306
Provision for adverse deviation						46,203
Total liabilities included in the consolidated statement of financial position.						4,419,693

Reinsurance business

Analysis of claims development – gross of reinsurance

For the year ended 31 December 2012

	Underwriting year					
	2008	**2009**	**2010**	**2011**	**2012**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	1,050,587	842,040	1,102,624	2,049,249	1,215,625	
One year later	1,343,934	1,444,193	2,141,938	3,462,921	–	
Two years later	1,293,801	1,285,906	2,089,192	–	–	
Three years later	1,146,645	1,217,335	–	–	–	
Four years later	1,095,303	–	–	–	–	
Estimate of cumulative claims	1,095,303	1,217,335	2,089,192	3,462,921	1,215,625	9,080,376
Cumulative payments to date	(975,927)	(934,304)	(1,322,792)	(1,501,222)	(45,166)	(4,779,411)
Liabilities recognised in the consolidated statement of financial position.	119,376	283,031	766,400	1,961,699	1,170,459	4,300,965
Liabilities in respect of underwriting years 2007 and before.						249,222
Total liabilities included in the consolidated statement of financial position (note)						4,550,187

Note: Excluding the claims liabilities for the life reinsurance business.

For the year ended 31 December 2011

	Underwriting year					
	2007	**2008**	**2009**	**2010**	**2011**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	813,412	1,050,587	842,040	1,102,624	2,049,249	
One year later	1,157,883	1,343,934	1,444,193	2,141,938	–	
Two years later	1,199,548	1,293,801	1,285,906	–	–	
Three years later	1,163,480	1,146,645	–	–	–	
Four years later	1,066,009	–	–	–	–	
Estimate of cumulative claims	1,066,009	1,146,645	1,285,906	2,141,938	2,049,249	7,689,747
Cumulative payments to date	(883,291)	(899,094)	(820,253)	(865,240)	(160,392)	(3,628,270)
Liabilities recognised in the consolidated statement of financial position.	182,718	247,551	465,653	1,276,698	1,888,857	4,061,477
Liabilities in respect of underwriting years 2006 and before.						219,729
Total liabilities included in the consolidated statement of financial position (note)						4,281,206

Note: Excluding the claims liabilities for the life reinsurance business.

Analysis of claims development – net of reinsurance

For the year ended 31 December 2012

	Underwriting year					
	2008	2009	2010	2011	2012	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	922,454	788,175	1,044,956	1,744,919	1,146,649	
One year later	1,172,974	1,312,205	1,874,500	2,994,129	–	
Two years later	1,128,945	1,150,550	1,919,808	–	–	
Three years later	995,722	1,097,796	–	–	–	
Four years later	944,978	–	–	–	–	
Estimate of cumulative claims	944,978	1,097,796	1,919,808	2,994,129	1,146,649	8,103,360
Cumulative payments to date	(833,348)	(856,855)	(1,254,694)	(1,153,453)	(52,580)	(4,150,930)
Liabilities recognised in the consolidated statement of financial position.	111,630	240,941	665,114	1,840,676	1,094,069	3,952,430
Liabilities in respect of underwriting years 2007 and before.						227,176
Total liabilities included in the consolidated statement of financial position (note)						4,179,606

Note: Excluding the claims liabilities for the life reinsurance business.

For the year ended 31 December 2011

	Underwriting year					
	2007	2008	2009	2010	2011	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Estimate of cumulative claims						
At end of underwriting year.	752,167	922,454	788,175	1,044,956	1,744,919	
One year later	994,736	1,172,974	1,312,205	1,874,500	–	
Two years later	1,042,789	1,128,945	1,150,550	–	–	
Three years later	1,021,230	995,722	–	–	–	
Four years later	929,961	–	–	–	–	
Estimate of cumulative claims	929,961	995,722	1,150,550	1,874,500	1,744,919	6,695,652
Cumulative payments to date	(767,994)	(763,028)	(762,420)	(818,308)	(161,412)	(3,273,162)
Liabilities recognised in the consolidated statement of financial position.	161,967	232,694	388,130	1,056,192	1,583,507	3,422,490
Liabilities in respect of underwriting years 2006 and before.						196,049
Total liabilities included in the consolidated statement of financial position (note)						3,618,539

Note: Excluding the claims liabilities for the life reinsurance business.

5. Operating Segments

For management purposes, the Group organises its businesses based on four operating segments as follows:

– Life insurance business;

– Property and casualty insurance business;

– Reinsurance business; and

– Other businesses which comprise the asset management business, insurance intermediary business, pension business, group life business and property development business.

Information regarding the above segments is reported below:

(a) Segmental profit or loss for the year ended 31 December 2012

	Life insurance	Property and casualty insurance	Reinsurance	Others businesses	Inter-segment elimination and adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue-Gross premiums written and policy fees	44,952,564	11,692,110	3,435,304	1,135,817	(52,621)	61,163,174
Less: Premium ceded to reinsures	(193,398)	(1,812,366)	(362,065)	(295,206)	–	(2,663,035)
Net premiums written and policy fees	44,759,166	9,879,744	3,073,239	840,611	(52,621)	58,500,139
Change in unearned premium reserve, net of reinsurance	20,505	(1,011,322)	(78,738)	(51,916)	–	(1,121,471)
Net earned premium and policy fees	44,779,671	8,868,422	2,994,501	788,695	(52,621)	57,378,668
Net investment income	7,284,172	647,561	319,032	500,070	(33,138)	8,717,697
Net realised and unrealised investment (losses) gains and impairment	(2,632,988)	271,466	9,462	350,729	(377)	(2,001,708)
Other income (expense)	299,158	58,759	26,028	693,218	(369,750)	707,413
	49,730,013	9,846,208	3,349,023	2,332,712	(455,886)	64,802,070
Benefits, loss and expenses						
Net policyholders' benefits	(8,682,969)	(4,556,072)	(2,291,517)	(394,532)	–	(15,925,090)
Net commission expenses	(3,941,246)	(596,894)	(835,770)	(65,930)	222,379	(5,217,461)
Change in life insurance contract liabilities, net of reinsurance	(30,166,192)	–	–	(108,144)	–	(30,274,336)
Administrative and other expenses	(6,075,576)	(3,682,308)	(88,461)	(1,351,693)	216,688	(10,981,350)
Total benefits, losses and expenses	(48,865,983)	(8,835,274)	(3,215,748)	(1,920,299)	439,067	(62,398,237)
Share of results of associates	125,510	–	–	93,009	(125,464)	93,055
Share of result of a jointly controlled entity	–	–	–	9	–	9
Finance costs	(443,213)	(55,913)	(2,194)	(217,485)	13,191	(705,614)
Profit before taxation	546,327	955,021	131,081	287,946	(129,092)	1,791,283
Income tax credit/(charge)	315,439	(71,718)	(19,001)	(140,803)	2,348	86,265
Profit/(loss) after taxation	861,766	883,303	112,080	147,143	(126,744)	1,877,548
Non-controlling interests						919,702
Profit attributable to owners						957,846

Segment revenue and segment profit (loss) represents the revenue and profit (loss) earned by each segment which is the measure reported to the management for the purpose of resource allocation and assessment of segment performance.

(b) Segmental statement of financial position as at 31 December 2012

	Life insurance	Property and casualty insurance	Reinsurance	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Statutory deposits	1,479,924	683,121	70,347	373,014	2,606,406
Property, plant and equipment	2,503,648	1,170,598	51,655	895,461	4,621,362
Investment properties	2,285,306	1,763,242	73,720	5,171,443	9,293,711
Prepaid lease payments	62,438	101,739	–	–	164,177
Goodwill	902,476	148,739	–	–	1,051,215
Intangible assets	–	264,509	–	–	264,509
Interests in associates	12,096	–	–	828,772	840,868
Interest in a jointly controlled entity	–	–	–	208	208
Construction in progress	–	115,703	–	–	115,703
Investments in securities	144,621,987	9,323,128	4,916,981	2,889,924	161,752,020
Securities purchased under resale agreements	–	–	–	80,163	80,163
Insurance debtors	919,425	992,847	773,494	148,720	2,834,486
Reinsurers' share of insurance contract provisions	(14,612)	2,484,876	410,447	166,401	3,047,112
Policyholder account assets in respect of unit-linked products	3,141,049	–	–	–	3,141,049
Other debtors	7,349,228	503,098	197,781	443,022	8,493,129
Amounts due from group companies	3,293	2,717	–	2,984,970	2,990,980
Tax recoverable	–	25,737	–	–	25,737
Deferred tax assets	–	26,843	108,849	8,337	144,029
Derivative financial instrument	–	24	–	–	24
Pledged bank deposits	–	56,199	223,159	15,997	295,355
Deposits at banks with original maturity more than three months	32,226,105	2,683,496	624,701	720,406	36,254,708
Cash and cash equivalents	10,987,392	2,867,025	1,507,474	4,480,256	19,842,147
Segment assets	206,479,755	23,213,641	8,958,608	19,207,094	257,859,098
Liabilities					
Life insurance contract liabilities	121,192,112	–	–	230,666	121,422,778
Unearned premium reserve	256,742	5,099,336	973,829	325,707	6,655,614
Outstanding claims reserve	109,850	6,411,092	4,559,241	244,240	11,324,423
Investment contract liabilities	25,418,923	–	–	562,803	25,981,726
Securities sold under repurchase agreements	34,936,714	345,315	–	144,786	35,426,815
Interest-bearing notes	8,817,881	863,289	–	3,653,566	1,334,736
Bank loans and other borrowings	–	–	–	4,329,965	4,329,965
Insurance creditors	2,154,835	1,778,683	149,929	519,505	4,602,952
Other creditors and accrued charges	2,019,925	1,245,755	73,783	1,260,511	4,599,974
Amounts due to group companies	21,585	7,464	191	7,347	36,587
Tax payable	–	161,979	148,865	12,291	329,135
Deferred tax liabilities	791,295	115,984	–	804,537	1,711,816
Insurance protection fund	24,108	33,006	–	5,366	62,480
Derivative financial instruments	–	33	–	6,495	6,528
Segment liabilities	195,743,970	16,067,936	5,905,838	12,107,785	229,825,529
Net assets					28,033,569
Employee share-based compensation reserve of a subsidiary					(23,186)
Non-controlling interests					(13,417,396)
Net assets attributable to owners of the Company					14,592,987

Segment assets and segment liabilities represent the asset/liabilities recorded by each segment which is the measure reported to the management for the purposes of resource allocation and assessment of segment performance.

(c) Segmental profit or loss for the year ended 31 December 2011 (Restated)

	Life insurance	Property and casualty insurance	Reinsurance	Others businesses	Inter-segment elimination and adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue-Gross premiums written and policy fees	38,137,172	8,938,235	3,431,083	641,483	(41,919)	51,106,054
Less: Premium ceded to reinsures	(248,684)	(1,528,583)	(357,424)	(126,832)	–	(2,261,523)
Net premiums written and policy fees	37,888,488	7,409,652	3,073,659	514,651	(41,919)	48,844,531
Change in unearned premium reserve, net of reinsurance	84,562	(311,590)	(168,416)	(142,805)	–	(538,249)
Net earned premium and policy fees	37,973,050	7,098,062	2,905,243	371,846	(41,919)	48,306,282
Net investment income	4,973,223	514,942	276,439	350,615	(71,848)	6,043,371
Net realised and unrealised investment gains(losses) and impairment	(491,311)	85,695	(145,783)	1,119,514	(18,693)	549,422
Other income	135,970	102,908	12,562	1,382,092	(650,578)	982,954
	42,590,932	7,801,607	3,048,461	3,224,067	(783,038)	55,882,029
Benefits, loss and expenses						
Net policyholders' benefits	(6,182,005)	(3,756,016)	(2,131,552)	(134,575)	–	(12,204,148)
Net commission expenses	(3,452,910)	(414,826)	(812,319)	(41,476)	206,827	(4,514,704)
Change in life insurance contract liabilities, net of reinsurance	(27,039,277)	–	–	(119,424)	–	(27,158,701)
Administrative and other expenses	(5,136,992)	(2,922,240)	(85,581)	(1,133,072)	203,338	(9,074,547)
Total benefits, losses and expenses	(41,811,184)	(7,093,082)	(3,029,452)	(1,428,547)	410,165	(52,952,100)
Share of results of associates	247,618	–	–	30,044	(247,043)	30,619
Share of result of a jointly controlled entity	–	–	–	9	–	9
Finance costs	(432,171)	(54,802)	–	(148,090)	–	(635,063)
Profit before taxation	595,195	653,723	19,009	1,677,483	(619,916)	2,325,494
Income tax credit/(charge)	167,063	(102,694)	(60,873)	(332,376)	11,109	(317,771)
Profit/(loss) after taxation	762,258	551,029	(41,864)	1,345,107	(608,807)	2,007,723
Non-controlling interests						(649,813)
Profit attributable to owners						1,357,910

Segment revenue and segment profit represents the revenue and profit earned by each segment which is the measure reported to the management for the purpose of resource allocation and assessment of segment performance.

Included in the revenue-gross premiums written and policy fees and segment profit of property and casualty insurance business are gross premiums of HK$1,919,273,000 and segment loss of HK$80,806,000 respectively, related to The Ming An Insurance Company (China) Limited ("MAC") over which the Group has lost control as at 31 December 2011.

(d) Segmental statement of financial position as at 31 December 2011 (Restated)

	Life insurance	Property and casualty insurance	Reinsurance	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Statutory deposits	1,480,200	580,705	33,550	311,406	2,405,861
Property, plant and equipment	2,591,099	1,283,469	54,527	531,352	4,460,447
Investment properties	1,705,016	1,111,431	74,760	5,337,905	8,229,112
Prepaid lease payments	63,807	104,006	–	–	167,813
Goodwill	902,477	148,738	–	–	1,051,215
Intangible assets	–	264,791	–	–	264,791
Interests in associates	6,601	–	–	798,406	805,007
Interest in a jointly controlled entity	–	–	–	199	199
Construction in progress	43,730	68,253	–	–	111,983
Properties held for sale	–	–	–	9,400	9,400
Investments in securities	118,454,963	7,948,499	4,575,734	1,441,707	132,420,903
Securities purchased under resale agreements	–	–	111,015	8,264	119,279
Insurance debtors	741,285	782,595	678,171	68,015	2,270,066
Reinsurers' share of insurance contract provisions	168,772	2,016,109	753,370	66,718	3,004,969
Policyholder account assets in respect of unit-linked products	3,729,117	–	–	–	3,729,117
Other debtors	4,577,971	369,461	178,465	273,717	5,399,614
Amounts due from group companies	21,487	2,770	–	2,630,816	2,655,073
Tax recoverable	–	–	–	–	–
Deferred tax assets	–	43,745	107,553	7,978	159,276
Pledged bank deposits	–	52,368	187,677	16,000	256,045
Deposits at banks with original maturity more than three months	15,444,243	1,582,220	284,609	393,264	17,704,336
Cash and cash equivalents	12,634,722	3,035,762	1,063,173	3,240,853	19,974,510
Segment assets	162,565,490	19,394,922	8,102,604	15,136,000	205,199,016
Liabilities					
Life insurance contract liabilities	91,073,806	–	–	122,177	91,195,983
Unearned premium reserve	308,985	3,688,161	946,119	216,756	5,160,021
Outstanding claims reserve	227,012	5,954,683	4,286,130	71,719	10,539,544
Investment contract liabilities	30,945,350	–	–	423,140	31,368,490
Securities sold under repurchase agreements	19,002,105	616,750	–	–	19,618,855
Interest-bearing notes	8,819,525	863,450	–	1,357,759	11,040,734
Bank loans and other borrowings	–	–	–	3,729,632	3,729,632
Insurance creditors	1,218,156	1,597,408	100,798	211,767	3,128,129
Other creditors and accrued charges	1,607,936	1,071,854	74,590	1,276,531	4,030,911
Amounts due to group companies	21,194	11,530	543	11,781	45,048
Tax payable	16,338	137,922	154,427	54,361	363,048
Deferred tax liabilities	455,723	110,603	–	723,676	1,290,002
Insurance protection fund	12,143	14,511	–	7,193	33,847
Derivative financial instruments	–	–	–	45,005	45,005
Segment liabilities	153,708,273	14,066,872	5,562,607	8,251,497	181,589,249
Net assets					23,609,767
Employee share-based compensation reserve of a subsidiary					(22,890)
Non-controlling interests					(10,716,140)
Net assets attributable to owners of the Company					12,870,737

Segment assets and segment liabilities represent the asset/liabilities recorded by each segment which is the measure reported to the management for the purposes of resource allocation and assessment of segment performance.

6. Gross Premiums Written and Policy Fees

Revenue represents gross premiums written and policy fee from life insurance business, property and casualty insurance business, reinsurance business and other businesses. The amount of each significant category of revenue recognised during the year is as follows:

	2012	2011
	HK$'000	*HK$'000*
Gross premiums written		
Life insurance	44,807,453	37,928,838
Property and casualty insurance	11,692,113	8,938,235
Reinsurance	3,435,304	3,431,083
Other businesses	1,083,193	599,564
Policy fees from investment contracts	145,111	208,334
	61,163,174	51,106,054

7. Net Investment Income

	2012	2011
	HK$'000	*HK$'000*
Net investment income *(Note (a))*	8,717,697	6,043,371
Net realised and unrealised investment (losses) gains and impairment *(Note (b))*	(2,001,708)	549,422
	6,715,989	6,592,793

Notes:

(a) Net investment income

	2012	2011
	HK$'000	*HK$'000*
Interest income from debt investments		
– Held-to-maturity	3,997,967	3,325,338
– Available-for-sale	1,150,476	925,789
– Held-for-trading	15,343	17,101
– Designated at fair value through profit or loss	27,766	10,207
– Loans and receivables	63,710	38,164
Interest income from debt schemes	803,399	358,651
Dividend income from direct equity securities and investment funds		
– Available-for-sale	923,490	337,245
– Held-for-trading	9,901	10,887
Gross rental income from investment properties	345,149	197,032
Less: direct outgoings	(19,429)	(12,280)
Bank deposits and other interest income	1,979,160	1,087,760
Net interest expenses on securities sold/purchased under repurchase/resale agreements	(579,235)	(252,523)
	8,717,697	6,043,371

Included above is income of HK$1,049,304,000 (2011: HK$985,142,000) from listed investments and income of HK$5,942,748,000 (2011: HK$4,038,240,000) from unlisted investments.

(b) Net realised and unrealised investment gains (losses) and impairment

	2012	2011
	HK$'000	*HK$'000*
Net realised investment gains (losses) on:		
Debt investments		
– Held-to-maturity	–	1,655
– Available-for-sale	55,693	100,554
– Designated at fair value through profit or loss	(7,726)	(84)
– Held-for-trading	7,917	18,274
Direct equity securities and investment funds		
– Available-for-sale	(1,179,874)	(47,924)
– Held-for-trading	4,143	(16,638)
Derivative financial instruments	(11,697)	(65,941)
Gain on disposal of investment properties	540	16,329
	(1,131,004)	6,225
Net unrealised investment gains (losses) on:		
Debt investments		
– Designated at fair value through profit or loss	15,483	(1,670)
– Held-for-trading	25,454	(4,823)
Direct equity securities and investment funds		
– Held-for-trading	18,896	(34,341)
Derivative financial instruments	38,501	54,264
Investment properties under construction	126,935	324,758
Other investment properties	631,363	1,018,194
	856,632	1,356,382
Impairment loss recognised in respect of		
– Available-for-sale equity securities and investment funds	(1,727,336)	(813,185)
	(2,001,708)	549,422

Included in net realised investment gains (losses) above are losses of HK$1,551,000,000 (2011: gains of HK$402,541,000) from listed investments and gains of HK$431,153,000 (2011: losses of HK$346,704,000) from unlisted investments. Included in net unrealized investment gains (losses) above are gains of HK$66,775,000 (2011: losses of HK$41,320,000) from listed investments and losses of HK$6,942,000 (2011: gains of HK$486,000) from unlisted investments.

8. Other Income

	2012	2011
	HK$'000	*HK$'000*
Income from provision of asset management services	58,104	41,772
Income from provision of property management services	104,752	76,187
Income from provision of insurance intermediary services	29,260	31,851
Income from provision of securities brokerage services	22,902	50,892
Income from provision of pension administration services	113,843	98,451
Interest income on secured loans to policyholders	106,221	66,305
Management fee income from a fellow subsidiary	–	2,463
Net gain on disposal of property, plant and equipment	23,407	36
Gain on disposal of associates	–	386,158
Net impairment losses written back in respect of property, plant and equipment	14,338	33,581
Net impairment losses (recognised) written back in respect of insurance and other debtors	45,659	7,157
Net foreign exchange gain	32,930	66,522
Others	155,997	121,579
	707,413	982,954

9. Net Policyholders' Benefits and Net Commission Expenses

(a) Net policyholders' benefits

For the year ended 31 December 2012

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Claims and claim adjustment expenses	695,583	5,435,723	2,413,862	545,501	9,090,669
Less: Reinsurers' and retrocessionaries' shares	(132,401)	(879,651)	(122,345)	(180,587)	(1,314,984)
	563,182	4,556,072	2,291,517	364,914	7,775,685
Surrenders	3,920,405	–	–	1,445	3,921,850
Annuity, dividends and maturity payments	3,107,731	–	–	28,173	3,135,904
Interest allocated to investment contracts	1,091,651	–	–	–	1,091,651
	8,682,969	4,556,072	2,291,517	394,532	15,925,090

For the year ended 31 December 2011

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Claims and claim adjustment expenses	812,254	4,403,985	2,624,717	169,745	8,010,701
Less: Reinsurers' and retrocessionaries' shares	(160,891)	(647,969)	(493,165)	(43,626)	(1,345,651)
	651,363	3,756,016	2,131,552	126,119	6,665,050
Surrenders	2,706,983	–	–	–	2,706,983
Annuity, dividends and maturity payments	1,707,761	–	–	8,456	1,716,217
Interest allocated to investment contracts	1,115,898	–	–	–	1,115,898
	6,182,005	3,756,016	2,131,552	134,575	12,204,148

(b) Net commission expenses

For the year ended 31 December 2012

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross commission expenses	3,865,681	1,163,796	900,333	92,119	6,021,929
Reinsurance commission income	(22,763)	(669,516)	(64,563)	(47,626)	(804,468)
Net commission expenses	3,842,918	494,280	835,770	44,493	5,217,461

For the year ended 31 December 2011

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross commission expenses	3,361,411	852,393	876,808	64,856	5,155,468
Reinsurance commission income	(41,128)	(511,767)	(64,489)	(23,380)	(640,764)
Net commission expenses	3,320,283	340,626	812,319	41,476	4,514,704

10. Profit Before Taxation

Profit before taxation is arrived at after charging:

		2012	2011
		HK$'000	*HK$'000*
(a)	Finance costs:		
	Interest on interest-bearing notes		
	– wholly payable within 5 years	216,373	213,839
	– not wholly payable within 5 years	372,080	351,690
	Interest on bank loans and other borrowings wholly payable within 5 years	117,161	69,534
		705,614	635,063
(b)	Directors' remuneration:		
	– Other emoluments	20,425	14,799
	– Contributions to defined contribution retirement plans	487	196
	– Share-based compensation benefits	–	292
	Other staff costs:		
	Salaries, wages and other benefits	4,927,184	3,789,601
	Employee share-based compensation benefits	7,056	12,517
	Contributions to defined contribution retirement plans	354,084	276,384
		5,309,236	4,093,789
(c)	Other items		
	Auditor's remuneration	15,083	13,154
	Amortisation of prepaid lease payments	3,591	8,148
	Amortisation of intangible asset	282	141
	Depreciation of property, plant and equipment	328,037	332,168
	Operating lease charges in respect of properties	487,100	383,561
	Business tax and additional charges	650,965	586,882
	Share of associates' taxation charge (included in share of results of associates)	36,988	7,306

11. Income Tax in the Consolidated Statement of Comprehensive Income

(a) Income tax (credit) charge in the consolidated statement of comprehensive income represents:

	2012	2011
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	28,845	2,773
(Over)underprovision in respect of prior years	(65)	53,004
	28,780	55,777
Current tax – Outside Hong Kong		
Provision for the year	116,524	168,204
Overprovision in respect of prior years	(32,674)	(17,420)
	83,850	150,784
Deferred tax *(Note 26(b))*	(198,895)	111,210
Income tax (credit) charge	(86,265)	317,771

The provision for Hong Kong Profits Tax represents the Group's estimated Hong Kong Profits Tax liability calculated at the standard tax rate of 16.5% (2011: 16.5%) on its assessable profits from property and casualty insurance, reinsurance, asset management and insurance and securities intermediary business, except for those from the business of reinsurance of offshore risks, which is calculated at 8.25% (2011: 8.25%), one-half of the standard tax rate.

Taxation outside Hong Kong for overseas subsidiaries is calculated at the rates prevailing in the relevant jurisdictions. Under the new Enterprise Income Tax Law of the PRC, the enterprise income tax rates for domestic companies in the PRC is 25% (2011: 24% to 25%).

(b) The income tax (credit) charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK$'000	*HK$'000*
Profit before taxation	1,791,283	2,325,494
Tax at the rate applicable to assessable profits of the operations in different jurisdictions	386,800	559,166
Tax effect of share of results of associates	(12,866)	(366)
Tax effect of share of result of a jointly controlled entity	(1)	(1)
Tax effect of expenses not deductible for tax purpose	195,391	111,087
Effect of tax concession granted to the business of reinsurance with offshore risks	(6,387)	6,347
Tax effect of income not taxable for tax purpose	(624,277)	(464,237)
Tax effect of tax losses not recognised	48,987	89,672
Tax effect of utilisation of tax losses previously not recognised	(10,527)	(62,353)
Tax effect of deductible temporary differences (reversed) not recognised	(57,004)	9,523
Tax effect of change in accounting policy	16,825	–
(Over)underprovision in respect of prior years	(32,739)	35,584
Effect of different tax rate of branches or subsidiaries operating in jurisdictions different from head office and holding companies	9,533	33,349
Income tax charge	(86,265)	317,771

12. Property, Plant and Equipment

	Buildings	Land and buildings	Other fixed assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1 January 2011	180,482	3,744,309	1,282,348	5,207,139
Exchange adjustments	1,564	92,626	49,305	143,495
Additions	–	107,684	237,040	344,724
Disposals	–	–	(54,617)	(54,617)
Surplus on revaluation upon transfer from land and buildings to investment properties	–	233,466	–	233,466
Transfer from construction in progress	–	640,638	25,990	666,628
Transfer from investment properties	–	6,210	–	6,210
Transfer to investment properties	–	(407,453)	–	(407,453)
At 31 December 2011	182,046	4,417,480	1,540,066	6,139,592
Exchange adjustments	2	(778)	1,060	284
Additions	–	130,711	344,733	475,444
Disposals	–	(60,934)	(182,420)	(243,354)
Surplus on revaluation upon transfer from land and buildings to investment properties	–	152,868	–	152,868
Transfer from construction in progress	–	45,064	9,563	54,627
Transfer from investment properties	–	279,962	–	279,962
Transfer to investment properties	(33,393)	(346,779)	–	(380,172)
At 31 December 2012	148,655	4,617,594	1,713,002	6,479,251
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2011	39,396	679,498	686,017	1,404,911
Exchange adjustments	598	10,087	33,958	44,643
Provided for the year	1,372	101,641	229,155	332,168
Impairment loss written back	–	(33,581)	–	(33,581)
Eliminated on disposals	–	–	(52,534)	(52,534)
Eliminated upon transfer to investment properties	–	(16,462)	–	(16,462)
At 31 December 2011	41,366	741,183	896,596	1,679,145
Exchange adjustments	40	1,098	1,705	2,843
Provided for the year	258	97,673	230,106	328,037
Impairment loss written back	–	(14,338)	–	(14,338)
Eliminated on disposals	–	(6,351)	(95,229)	(101,580)
Eliminated upon transfer to investment properties	(13,399)	(22,819)	–	(36,218)
At 31 December 2012	28,265	796,446	1,033,178	1,857,889
CARRYING VALUES				
At 31 December 2012	120,390	3,821,148	679,824	4,621,362
At 31 December 2011	140,680	3,676,297	643,470	4,460,447

The above items of property, plant and equipment are depreciated on a straight-line basis at following rates per annum:

Land and buildings	Over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years
Other fixed assets	10% to 33%

The Group is still in the process of obtaining the title deeds from relevant government authorities for its land and buildings situated outside Hong Kong with carrying value at 31 December 2012 of HK$712,522,000 (31.12.2011: HK$714,199,000).

The carrying value of properties shown above comprise:

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
Land in Hong Kong		
– long leases	809,085	790,542
– medium-term leases	2,151	4,285
Land outside Hong Kong		
– freehold	99,219	108,666
– long leases	111,828	80,238
– medium-term leases	2,919,255	2,833,246
	3,941,538	3,816,977

13. Investment Properties

	Investment properties under construction	**Other investment properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
FAIR VALUE			
At 1 January 2011	2,922,007	1,891,184	4,813,191
Exchange realignments	159,877	49,585	209,462
Additions	389,420	5,332	394,752
Disposals	–	(22,865)	(22,865)
Transfer from land and buildings	–	390,991	390,991
Transfer to land and buildings	–	(6,210)	(6,210)
Transfer from prepaid lease payments	882,866	–	882,866
Transfer to properties held for sale	–	(9,400)	(9,400)
Transfer from construction in progress	233,373	–	233,373
Transfer upon completion	(3,776,203)	3,776,203	–
Net increase in fair value recognised in profit or loss	324,758	1,018,194	1,342,952
At 31 December 2011	1,136,098	7,093,014	8,229,112
Exchange realignments	220	169	389
Additions	217,835	39,048	256,883
Disposals	–	(14,963)	(14,963)
Transfer from land and buildings	–	343,954	343,954
Transfer to land and buildings	(21,561)	(258,401)	(279,962)
Net increase in fair value recognised in profit or loss	126,935	631,363	758,298
At 31 December 2012	1,459,527	7,834,184	9,293,711

The fair value of the Group's investment properties at 31 December 2012 and 2011 have been arrived at on the basis of valuations carried out by Jones Lang Lasalle Corporate Appraisal and Advisory Limited (formerly known as Jones Lang Lasalle Sallmanns Limited), Asset Appraisal Limited, Savills Valuation and Professional Services(s) Pte Ltd, Knight Frank Pte Ltd and Shenzhen Tianjian Guozhonglian Asset Appraisal and Valuation Company Limited, independent qualified professional valuers not connected with the Group.

All of these professional valuers have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was primarily arrived at by reference to market evidence of transaction prices for similar properties and conditions and the capitalisation of the discounted value of total future net rental income.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

During the year ended 31 December 2012, interest capitalised in investment properties under construction amounted to HK$8,592,000 (2011: HK$8,400,000).

The Group is still in the process of obtaining the title deeds from relevant government authorities for its investment properties situated outside Hong Kong with long leases with fair value at 31 December 2012 of HK$24,876,000 (31.12.2011: HK$23,919,000).

The fair value of investment properties shown above comprises:

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
Land in Hong Kong		
– long leases	1,369,871	1,123,545
– medium-term leases	74,870	65,550
Land outside Hong Kong		
– freehold	43,767	31,182
– long leases	3,114,899	2,409,146
– medium-term leases	4,558,093	4,598,575
– short leases	132,211	1,114
	9,293,711	8,229,112

14. Prepaid Lease Payments

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
– long leases	164,177	167,813
Analysed for reporting purpose as:		
Current assets	2,249	2,249
Non-current assets	161,928	165,564
	164,177	167,813

During the year 2011, the Group had finalised a development plan which determined that certain portion of the leasehold land outside Hong Kong would be used for leasing purpose and thus should be classified as investment properties. Accordingly, this relevant leasehold land with a carrying amount of $568,930,000 has been transferred to investment properties at a fair value of $882,866,000 on 1 July 2011, based on revaluation by independent real estate appraisal company, Shenzhen Tianjian Guozhonglian Asset Appraisal and Valuation Company Limited. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The remaining leasehold land continued to be held for construction of properties is primarily for own use.

15. Goodwill and Intangible Assets

(a) Goodwill

	HK$'000
COST AND CARRYING VALUE	
At 1 January 2011, 31 December 2011 and 2012	1,051,215

(b) Intangible assets

	Trade name	**Club debenture**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2011	261,408	–	261,408
Addition	–	3,524	3,524
At 31 December 2011 and 2012	261,408	3,524	264,932
AMORTISATIONS			
At 1 January 2011	–	–	–
Charge for the year	–	(141)	(141)
At 31 December 2011	–	(141)	(141)
Charge for the year	–	(282)	(282)
At 31 December 2012	–	(423)	(423)
CARRYING VALUES			
At 31 December 2012	261,408	3,101	264,509
At 31 December 2011	261,408	3,383	264,791

The intangible assets mainly represent the trade name acquired in the acquisition of a subsidiary in 2008, which is subject to annual impairment test. The relief-from-royalty approach is adopted to determine the fair value of the trade name. At the end of each reporting period, the management of the Group reassessed the assumptions of this approach. The trade name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trade name will not be amortised until its useful life is determined to be finite.

The club membership has a definite useful life of 25 years. It is amortised on a straight-line basis over its useful life.

(c) *Impairment tests for goodwill and intangible assets with indefinite useful lives*

For the purposes of impairment testing, goodwill and intangible assets with indefinite useful lives have been allocated to two individual cash generating units ("CGUs"), including life insurance business segment and property and casualty insurance business segment. The carrying amounts of goodwill and intangible assets with indefinite useful lives as at 31 December 2012 and 2011 allocated to these units are as follows:

	2012 and 2011		
	Goodwill	**Intangible assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Life insurance business	902,477	–	902,477
Property and casualty insurance business	148,738	261,408	410,146
	1,051,215	261,408	1,312,623

The recoverable amounts of CGUs containing goodwill or intangible assets were determined based on the value-in-use calculation. This calculation uses cash flow projections which represent what management believes to be the best estimate that the CGUs are able to achieve in their business lives.

The management determined the cash flow projections based on past performance and their expectation for market development. They consider that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

In respect of life insurance business, the recoverable amount was determined based on Taiping Life Insurance Company Limited ("TPL")'s appraisal value, which consists of the adjusted net worth plus the present value of inforce business and the new business value after cost of capital.

In respect of property and casualty business, the recoverable amount was determined by estimating and discounting the future cash flows to present value using a discount rate of 14% (2011: 14%).

As at 31 December 2012 and 2011, management of the Group determines that there is no impairment of its CGUs containing goodwill and intangible assets.

16. Interests in Associates

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Share of net assets	840,868	805,007

As at 31 December 2012 and 2011, the Group had interests in the following principal associates, all of which are unlisted corporate entities:

Name of associate	Form of business structure	Place/country of incorporation/ registration and operation	Particulars of issued and paid up/ registered capital		Proportion of nominal value of issued capital/ registered capital held by the Group		Principal activity
			2012	2011	2012	2011	
Shangri-La Hotels (Shenzhen) Limited	Incorporated	Hong Kong	US$32,000,000	US$32,000,000	20.00%	20.00%	Hotel operation
CMT China Value Capital Advisors Limited	Incorporated	Hong Kong	HK$1,000	HK$1,000	46.00%	46.00%	Advisory services
深圳亞洲實業股份有限公司*	Incorporated	The PRC	RMB158,000,000	RMB158,000,000	30.51%	30.51%	Travel, catering and trading
Huatai Insurance Agency & Consultant Service Limited*	Incorporated	The PRC	RMB40,000,000	RMB40,000,000	25.00%	25.00%	Insurance agency and consultancy
中保大廈有限公司*	Incorporated	The PRC	RMB404,958,000	RMB404,958,000	25.00%	25.00%	Property holding

* These companies are PRC limited companies.

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

The summarised financial information in respect of the Group's associates is set out below:

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Total assets	5,739,576	4,883,242
Total liabilities	(2,076,982)	(1,220,953)
Net assets	3,662,594	3,662,289
Group's share of net assets of associates	840,868	805,007

	For the year ended 31 December	
	2012	**2011**
	HK$'000	*HK$'000*
Revenue	1,325,521	677,635
Profit for the year	379,199	120,414
Group's share of results of associates for the year	93,055	30,619

17. Interest in a Jointly Controlled Entity

As at 31 December 2012, the Group had interest in the following jointly controlled entity:

Name of entity	Form of entity	Country of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activity
北京世紀億茂物業管理有限公司 ("北京世紀億茂")	Incorporated	The PRC	The PRC	Ordinary	51%	50%	Property management

	2012	**2011**
	HK$'000	*HK$'000*
Cost of unlisted investment	180	180
Share of post-acquisition profits and other comprehensive income	28	19
	208	199

The Group holds 51% of the share capital of 北京世紀億茂 and controls 50% of the voting power in general meeting. 北京世紀億茂 is jointly controlled by the Group and the other shareholder by virtue of contractual arrangements among shareholders. Accordingly, 北京世紀億茂 is classified as a jointly controlled entity of the Group.

18. CONSTRUCTION IN PROGRESS

	2012	**2011**
	HK$'000	*HK$'000*
At 1 January	111,983	707,220
Exchange adjustments	(20)	40,286
Additions	58,367	192,148
Surplus on revaluation upon transfer to investment properties	–	72,330
Transfer to investment properties under construction	–	(233,373)
Transfer to property, plant and equipment	(54,627)	(666,628)
At 31 December	115,703	111,983

19. Properties Held for Sale

Movements in properties held for sale as follows:

	Completed properties held for sale
	HK$'000
At 1 January 2011	240
Reclassified from investment properties	9,400
Disposals	(240)
At 31 December 2011	9,400
Disposals	(9,400)
At 31 December 2012	–

All of the properties held for sale are carried at net realisable value. As at 31 December 2011, all properties for sale are situated in Hong Kong.

On 29 November 2011, the Group entered into a provisional sales and purchase agreement with an independent third party for the disposal of a property located in Hong Kong. Accordingly, such property was transferred from investment properties to properties held for sale at fair value of HK$9,400,000.

20. Investments in Securities

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Held-to-maturity securities	92,477,410	83,755,934
Available-for-sale securities	44,703,765	36,966,163
Held-for-trading securities	1,635,424	689,346
Securities designated at fair value through profit or loss	800,224	198,761
Loans and receivables	22,135,197	10,810,699
	161,752,020	132,420,903

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Held-to-maturity securities		
Debt securities		
Listed		
– in Hong Kong	570,170	349,157
– outside Hong Kong	4,576,256	3,865,055
Unlisted	87,330,984	79,541,722
Sub-total of held-to-maturity securities	92,477,410	83,755,934

The held-to-maturity debt securities include an amount of HK$703,330,000 (31.12.2011: HK$275,639,000) which is maturing within one year.

The fair value of held-to-maturity debt securities is HK$91,636,276,000 (31.12.2011: HK$83,800,284,000).

The market value of held-to-maturity listed debt securities is HK$5,488,524,000 (31.12.2011: HK$4,254,079,000). None of the held-to-maturity securities are past due or impaired.

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Available-for-sale securities		
Direct equity securities		
Listed		
– in Hong Kong	576,544	1,352,856
– outside Hong Kong	5,013,808	5,140,959
Unlisted		
– outside Hong Kong, at cost	2,711,893	2,662,169
– outside Hong Kong, at fair value	6,785	6,667
	8,309,030	9,162,651
Debt securities		
Listed		
– in Hong Kong	436,784	315,948
– outside Hong Kong	12,461,090	10,913,377
Unlisted	15,031,619	10,941,193
	27,929,493	22,170,518
Investment funds		
Listed		
– outside Hong Kong	3,411,856	3,155,453
Unlisted	5,053,386	2,477,541
	8,465,242	5,632,994
Sub-total of available-for-sale securities	44,703,765	36,966,163

The unlisted available-for-sale equity securities are primarily issued by private entities incorporated in the PRC. They are measured at cost at the end of the reporting period as the management considers that their fair values cannot be measured reliably.

The market value of available-for-sale listed equity securities is HK$5,590,352,000 (31.12.2011: HK$6,493,815,000). The market value of available-for-sale listed debt securities is HK$12,897,874,000 (31.12.2011: HK$11,229,325,000). The market value of available-for-sale listed funds is HK$3,411,856,000 (31.12.2011: HK$3,155,453,000).

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Held-for-trading securities		
Direct equity securities		
Listed		
– in Hong Kong	76,165	102,068
– outside Hong Kong	52,600	47,500
	128,765	149,568
Debt securities		
Listed		
– outside Hong Kong	316,383	309,002
Unlisted	163,306	64,273
	479,689	373,275
Investment funds		
Listed		
– outside Hong Kong	45,814	138,228
Unlisted	981,156	28,275
	1,026,970	166,503
Sub-total of held-for-trading securities	1,635,424	689,346

The market value of held-for-trading listed equity investments is HK$128,765,000 (31.12.2011: HK$149,568,000). The market value of held-for-trading listed debt securities is HK$316,383,000 (31.12.2011: HK$309,002,000). The market value of held-for-trading listed investment funds is HK$45,814,000 (31.12.2011: HK$138,228,000).

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Securities designated at fair value through profit or loss		
Debt securities		
Listed		
– in Hong Kong	41,806	–
– outside Hong Kong	203,447	171,367
Unlisted	554,971	27,394
Sub-total of securities designated at fair value through profit or loss	800,224	198,761

The market value of listed debt securities designated at fair value through profit or loss is HK$245,253,000 (31.12.2011: HK$171,367,000).

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Loans and receivables		
Unlisted debt securities	1,523,556	1,214,273
Debt schemes *(Note)*	20,611,641	9,596,426
Sub-total of loans and receivables	22,135,197	10,810,699

Note: The debt schemes relate to finance for infrastructure projects in the PRC. The debt schemes will mature from 2015 to 2021 (2011: 2015 to 2025) and bear interest ranging from 5% to 7% (2011: 5% to 6%) per annum. The fair value of the debt schemes are determined with reference to the estimated cashflows discounted using market interest rates as at the end of the reporting period.

The fair value of loans and receivables is HK$21,095,718 (31.12.2011: HK$10,247,640,000). The fair value of the loans and receivables is determined with reference to the estimated cashflows discounted using market interest rates as at the end of the reporting period.

None of the loans and receivables are past due or impaired.

The Group invests in open-ended or close-ended investment funds with underlying assets of equity, bond or composite funds. The fair values of the investment funds are determined by reference to the prices quoted by respective fund administrators or by using valuations techniques including the use of recent arm's length transactions and discounted cash flow analysis.

The fair values of the unlisted debt securities are determined by reference to recent market transactions or in accordance with generally accepted pricing models including discounted cash flow technique.

The weighted average effective interest rates in respect of investments in debt securities is 5.07% (2011: 4.59%).

Some of the investments in securities are pledged with details set out in notes 34 and 46.

21. Insurance Debtors

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Amounts due from insurance customers	2,773,247	2,221,133
Less: Allowance for impaired debts	(123,195)	(124,187)
	2,650,052	2,096,946
Deposits retained by cedants	184,434	173,120
	2,834,486	2,270,066

All of the insurance debtors are interest-free. Included in insurance debtors is an amount of HK$2,600,300,000 (31.12.2011: HK$2,148,616,000) which is expected to be recovered within one year.

The following is an ageing analysis of the amounts due from insurance customers:

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Uninvoiced	595,150	407,201
Current	1,932,623	1,466,810
More than 3 months but less than 12 months	118,079	219,674
More than 12 months	4,200	3,261
	2,650,052	2,096,946

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

Amounts due from insurance customers that were past due but not impaired relate to a number of independent policyholders and reinsurers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

The amount of impaired debts is HK$123,195,000 (31.12.2011: HK$124,187,000). Management has taken various actions to recover the debts, but these debts have not been recovered and hence impairment allowance is recognised.

Movement in the allowance for impaired debts:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	124,187	124,835
Impairment loss reversed	(916)	(5,856)
Uncollectible amounts written off	(196)	(6)
Exchange difference	120	5,214
At 31 December	123,195	124,187

22. Reinsurers' Share of Insurance Contract Provisions

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

	31.12.2012	31.12.2011	1.1.2011
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Life insurance contract liabilities *(Note 30)*	(97,131)	36,126	13,034
Unearned premium reserve *(Note 31)*	1,069,229	714,638	618,018
Outstanding claims reserve *(Note 32)*	2,075,014	2,254,205	1,810,364
	3,047,112	3,004,969	2,441,416

23. Policyholder Account Assets in Respect of Unit-linked Products

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Investment in held-for-trading securities		
– Debt securities	190,895	235,020
– Direct equity securities	789,828	562,268
– Investment funds	1,459,953	1,517,125
Other debtors	66,268	31,321
Securities purchased under resale agreements	5,056	7,030
Money market funds	69,032	16,128
Deposits at banks with original maturity more than 3 months	20,966	–
Cash and cash equivalents	539,051	1,360,225
	3,141,049	3,729,117

The above assets are held for the policyholders of unit-linked products.

24. Other Debtors

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Interest receivable	3,200,248	2,408,994
Deposits for acquisition of properties	341,035	13,138
Tax certificate paid to Hong Kong Inland Revenue Department	54,957	52,902
Business tax prepaid	435,055	174,598
Rental and utility deposits	79,534	70,578
Other debtors, deposits and prepayments	1,987,783	1,303,499
Less: Allowance for impaired debts	(173,198)	(172,953)
	5,925,414	3,850,756
Loans receivable		
Secured loans to policyholders	2,567,715	1,548,858
	8,493,129	5,399,614

All interest receivable are expected to be recovered within one year.

Deposits for acquisition of properties as at 31 December 2012 are paid for the purchase of office buildings by two PRC branches of a subsidiary of the Company.

The secured loans to policyholders carry fixed interest rates of 6.4% per annum and are repayable within six months from the end of the reporting period. There was no amount due but unpaid nor any allowance for impaired debts made against the principal amount or interest receivable as of 31 December 2012 and 2011.

For other debtors which are past due at the end of the reporting period, impairment loss has been provided. There was no debtors past due but not impaired at the end of the reporting period.

Movement in allowance for impaired debts

	2012	2011
	HK$'000	*HK$'000*
At 1 January	172,953	173,284
Amounts written back during the year	44,278	–
Impairment loss reversed	(44,743)	(1,301)
Exchange difference	710	970
At 31 December	173,198	172,953

The amount of impaired debts are HK$173,198,000 (31.12.2011: HK$172,953,000). The Group has taken various actions to recover the debts, but these debts have not been recovered and hence impairment allowance is recognised.

25. Amounts due from (to) group companies

(a) Due from group companies

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Amount due from the ultimate holding company *(Note (i))*	2,980,204	2,631,298
Amounts due from fellow subsidiaries *(Note (ii))*	7,684	15,436
Amounts due from associates *(Note (iii))*	3,092	8,339
	2,990,980	2,655,073

Notes:

(i) The amount due from the ultimate holding company is unsecured and with the following terms:

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Current portion		
– 5.18% per annum	–	4,669
– interest-free	1,433,859	1,177,856
	1,433,859	1,182,525
Non-current portion		
– HIBOR + 1.71% per annum	1,448,673	1,448,773
– HIBOR + 2.10% per annum	97,672	–
	1,546,345	1,448,773
	2,980,204	2,631,298

(ii) The amounts due from fellow subsidiaries are unsecured, interest-free and repayable on demand.

(iii) The amounts due from associates are unsecured, interest-free and repayable on demand.

(b) Due to group companies

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Amount due to the ultimate holding company	5,047	7,218
Amounts due to fellow subsidiaries	31,540	37,830
	36,587	45,048

Amounts due to group companies are unsecured, interest free and repayable on demand.

26. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	28,845	2,773
Provisional Hong Kong Profits Tax paid	(401)	(15,652)
	28,444	(12,879)
Hong Kong Profits Tax provision relating to prior years	205,954	224,565
Taxation outside Hong Kong	69,000	151,362
	303,398	363,048
Tax recoverable recognised in the consolidated statement of financial position	25,737	–
Tax payable recognised in the consolidated statement of financial position	(329,135)	(363,048)
	(303,398)	(363,048)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets (liabilities) (prior to the offsetting of balances within the same taxation jurisdiction) recognised in the consolidated statement of financial position and the movements during the current and prior years are as follows:

	Deferred tax arising from							
	Difference in tax depreciation allowances and related depreciation	Revaluation of properties	Fair value adjustment of available-for-sale investments	Unused tax losses	Life insurance funds	Fair value adjustment arising from business combination	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	(348)	(535,754)	(210,128)	212,470	(1,019,980)	(79,222)	(179,004)	(1,811,966)
Exchange adjustment	(197)	(14,593)	(7,536)	3,661	(50,618)	–	(6,968)	(76,251)
Credit (charge) to profit or loss *(note 11)*	(8,746)	(309,106)	119,474	(40,729)	–	–	127,897	(111,210)
(Charge) credit to other comprehensive income	–	(153,784)	1,022,485	–	–	–	–	868,701
At 31 December 2011	(9,291)	(1,013,237)	924,295	175,402	(1,070,598)	(79,222)	(58,075)	(1,130,726)
Exchange adjustment	40	(649)	271	863	199	–	210	934
Credit (charge) to profit or loss *(note 11)*	15,914	(102,422)	105,853	150,999	–	–	28,551	198,895
Charge to other comprehensive income	–	(35,428)	(601,462)	–	–	–	–	(636,890)
At 31 December 2012	6,663	(1,151,736)	428,957	327,264	(1,070,399)	(79,222)	(29,314)	(1,567,787)

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	144,029	159,276
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,711,816)	(1,290,002)
	(1,567,787)	(1,130,726)

(c) Deferred tax assets not recognised:

At 31 December 2012, the Group had not recognised deferred tax assets in respect of certain tax losses of HK$2,081,091,000 (31.12.2011: HK$1,940,565,000) due to the unpredictability of the future profit streams. The tax losses of HK$710,000,000 (31.12.2011: HK$587,000,000) can be carried forward up to 5 years after the year in which the loss was originated to offset future taxable profits, while the remaining tax losses do not expire under current tax legislation. There were no other significant temporary differences at 31 December 2012 and 2011.

27. Statutory deposits

Certain subsidiaries of the Group have placed deposits of HK$2,434,475,000 (31.12.2011: HK$2,299,244,000) with banks as capital guarantee funds, pursuant to the relevant PRC insurance rules and regulations. The funds can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiaries cannot meet the statutory solvency requirements or go into liquidation.

Certain subsidiaries of the Group have pledged bank deposits of HK$171,931,000 (31.12.2011: HK$106,617,000) with various regulatory bodies for operational purposes.

28. Pledged bank deposits

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
The Group has pledged bank deposits for the following purposes:		
To secure banking facilities	239,159	203,677
As a cash collateral in respect of performance bonds issued on behalf of customers	56,196	52,368
	295,355	256,045

The pledged bank deposits are expected to be settled within one year.

29. Cash and cash equivalents

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Deposits with banks and other financial institutions with original maturity less than three months	10,937,756	10,582,940
Cash at bank and in hand	8,714,290	9,391,570
	19,652,046	19,974,510

30. Life insurance contract liabilities

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January	91,195,983	(36,126)	91,159,857	60,391,614	(13,034)	60,378,580
Exchange alignment	85,258	458	85,716	3,623,730	(1,154)	3,622,576
Premiums written during the year	44,066,602	(60,619)	44,005,983	37,009,430	(38,686)	36,970,744
Surrenders	(3,921,850)	–	(3,921,850)	(2,706,983)	–	(2,706,983)
Annuity, dividend and payments	(3,135,904)	–	(3,135,904)	(1,716,217)	–	(1,716,217)
Other movements	(6,867,311)	193,418	(6,673,893)	(5,405,591)	16,748	(5,388,843)
Balance as at 31 December	121,422,778	97,131	121,519,909	91,195,983	(36,126)	91,159,857

Key assumptions used in estimating the life insurance contract liabilities

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

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

Sensitivities of changes in key assumptions

	Impact on profit for the year and total equity	
	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
1% increase in interest rate	2,942,610	2,373,370
10% decrease in mortality/morbidity rate	472,960	352,750

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

31. Unearned premium reserve

	31.12.2012			31.12.2011 (Restated)			1.1.2011 (Restated)		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Property and casualty insurance	5,099,336	(861,475)	4,237,861	3,688,161	(481,119)	3,207,042	3,223,782	(440,116)	2,783,666
Life insurance	256,742	(57,830)	198,912	308,986	(89,457)	219,529	399,683	(108,114)	291,569
Reinsurance	973,829	(39,605)	934,224	946,119	(90,633)	855,486	756,857	(69,788)	687,069
Other businesses	325,707	(110,319)	215,388	216,755	(53,429)	163,326	16,417	–	16,417
	6,655,614	(1,069,229)	5,586,385	5,160,021	(714,638)	4,445,383	4,396,739	(618,018)	3,778,721
Current	5,712,530	(898,777)	4,813,753	4,612,675	(674,102)	3,938,573	4,120,968	(574,252)	3,546,716
Non-current	943,084	(170,452)	772,632	547,346	(40,536)	506,810	275,771	(43,766)	232,005
	6,655,614	(1,069,229)	5,586,385	5,160,021	(714,638)	4,445,383	4,396,739	(618,018)	3,778,721

Analysis of movements in unearned premium reserve:

	2012			2011 (Restated)		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	5,160,021	(714,638)	4,445,383	4,396,739	(618,018)	3,778,721
Exchange adjustment	24,095	(4,564)	19,531	149,401	(20,988)	128,413
Premiums written during the year	16,951,459	(2,602,417)	14,349,042	13,888,290	(2,222,837)	11,665,453
Premiums earned during the year	(15,479,961)	2,252,390	(13,227,571)	(13,274,409)	2,147,205	(11,127,204)
At 31 December	6,655,614	(1,069,229)	5,586,385	5,160,021	(714,638)	4,445,383

Assumptions and methodologies

The unearned premium reserve comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

A provision is made for unexpired risks arising from property and casualty insurance and reinsurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premium reserve in relation to such policies.

32. Outstanding claims reserve

	31.12.2012			31.12.2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property and casualty insurance	6,411,092	(1,623,401)	4,787,691	5,954,684	(1,534,991)	4,419,693
Life insurance	109,850	(24,689)	85,161	227,012	(43,189)	183,823
Reinsurance	4,559,241	(370,843)	4,188,398	4,286,130	(662,737)	3,623,393
Other businesses	244,240	(56,081)	188,159	71,718	(13,288)	58,430
	11,324,423	(2,075,014)	9,249,409	10,539,544	(2,254,205)	8,285,339
Current	5,134,930	(854,902)	4,280,028	6,199,236	(1,510,119)	4,689,117
Non-current	6,189,493	(1,220,112)	4,969,381	4,340,308	(744,086)	3,596,222
	11,324,423	(2,075,014)	9,249,409	10,539,544	(2,254,205)	8,285,339

Analysis of movements in outstanding claims reserve:

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January	10,539,544	(2,254,205)	8,285,339	8,783,140	(1,810,364)	6,972,776
Exchange adjustment	47,835	(13,217)	34,618	134,510	(18,118)	116,392
Claims paid	(8,353,625)	1,507,392	(6,846,233)	(6,388,807)	919,928	(5,468,879)
Claims incurred	9,090,669	(1,314,984)	7,775,685	8,010,701	(1,345,651)	6,665,050
At 31 December	11,324,423	(2,075,014)	9,249,409	10,539,544	(2,254,205)	8,285,339

Process used to determine the assumptions

The Group maintains a comprehensive database for all claims (both paid and reported outstanding claims) as notified to the Group from time to time. Periodical review of the provisions for reported outstanding claims is conducted to reflect the latest development. The reserve for claims incurred but not reported is made by using a range of statistical methods such as paid and incurred loss development methods and the Bornhuetter-Ferguson method, supplemented by management judgement. Larger-than-normal claims are reviewed separately.

The claims reserves are reviewed regularly to ensure the provisions are in line with the latest development of each major class of business for the Group. Key assumptions used in estimating claims liabilities are as follows:

- The past claims development experience can be used as a reference to project future claims development and hence the ultimate claims costs.

- There are no significant changes in the legal, social, economic or technological environment that may affect the cost, frequency or future reporting of claims.

During the year, there were no significant changes in the key assumptions used by the Group in estimating the outstanding claims reserve. Due to the potential variability of the assumptions used, the actual emergence of claims may vary with the outstanding claims reserve included in the Group's consolidated financial statements, particularly when settlements may not occur until well into the future (i.e. long-tail business). Therefore, any potential variability of the assumptions used may have a significant impact on the Group's consolidated results and financial position.

The standard actuarial methods as used by the Group are applied to the run-off triangles for the incurred claims, so that a range of estimates for the ultimate loss for each major class of business is obtained. Within this range, a realistic estimated value for the ultimate loss is determined as at the end of the reporting period which is recognised in the consolidated statement of financial position.

33. Investment contract liabilities

(a) Unit-linked products

	2012	2011
	HK$'000	*HK$'000*
Balance as at 1 January	3,729,117	4,909,273
Premiums received during the year	118,955	285,808
Investment loss allocated to investment contracts	(18,628)	(828,326)
Surrenders and others	(685,714)	(849,179)
Exchange alignment	(2,681)	211,541
Balance as at 31 December	3,141,049	3,729,117

(b) Universal life and other products

	2012	2011
	HK$'000	*HK$'000*
Balance as at 1 January	27,639,373	31,368,968
Premiums received during the year	777,449	962,911
Interest allocated to investment contracts, net of management fee	857,794	1,004,763
Surrenders and others	(6,412,576)	(7,134,858)
Exchange alignment	(21,363)	1,437,589
Balance as at 31 December	22,840,677	27,639,373
Total investment contract liabilities as at 31 December	25,981,726	31,368,490

34. Securities purchased under resale agreements/securities sold under repurchase agreements

The Group entered into transactions in which it transferred financial assets directly to third parties. As the Group has not transferred the significant risks and rewards relating to these securities, it continues to recognise the full carrying amount and has recognised the cash received on the transfer as securities sold under repurchase agreements. The following were the Group's held-to-maturity securities and available-for-sale securities as at 31 December 2012 that were transferred to an entity with terms to repurchase these securities at the agreed dates and prices. These securities are either measured at amortised cost or carried at fair value respectively in the Group's consolidated statement of financial position.

	31 December 2012		
	Held-to-maturity securities	**Available-for-sale securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of transferred assets	31,717,099	7,752,037	39,469,136
Carrying amount of associated liabilities – securities sold under repurchase agreements	30,397,136	5,029,679	35,426,815
Net position	1,319,963	2,722,358	4,042,321

	31 December 2011		
	Held-to-maturity securities	**Available-for-sale securities**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of transferred assets	18,084,300	4,748,388	22,832,688
Carrying amount of associated liabilities – securities sold under repurchase agreements	16,988,539	2,630,316	19,618,855
Net position	1,095,761	2,118,072	3,213,833

Conversely, the Group also enters into short-term investment arrangements secured by the securities purchased. The securities purchased are not recognized on the statement of financial position.

All of the securities purchased under resale agreements and securities sold under repurchase agreements are denominated in RMB and will be settled within one year from the end of the reporting period. The carrying amount of the securities purchased under resale agreements and securities sold under repurchase agreements approximate to their fair value.

As at 31 December 2012, most of the securities purchased under resale agreements and the securities sold under repurchase agreements will mature within 49 days (31 December 2011: within 9 days), with interest rates of 6% (31 December 2011: 5%-11%) and 3%-8% (31 December 2011: 3%-11%) per annum respectively.

35. Borrowings

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Interest-bearing notes *(Note (a))*	13,334,736	11,040,734
Bank loans and other borrowings *(Note(b))*	4,329,965	3,729,632
	17,664,701	14,770,366

Notes:

(a) Interest-bearing notes

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
USD notes due 2013 *(Note (i))*	1,355,423	1,357,759
RMB subordinated notes due 2013 *(Note (ii))*	1,849,905	1,850,250
RMB subordinated notes due 2018 *(Note (iii))*	2,528,204	2,528,675
RMB subordinated notes due 2019 *(Note (iv))*	369,981	370,050
RMB subordinated notes due 2020 *(Note (v))*	4,563,099	4,563,950
RMB subordinated notes due 2021 *(Note (vi))*	369,981	370,050
USD notes due 2022 *(Note (vii))*	2,298,143	–
	13,334,736	11,040,734
Current	3,205,328	–
Non-current	10,129,408	11,040,734
	13,334,736	11,040,734
Fair value of interest-bearing notes	12,701,248	10,377,236

Notes:

(i) On 12 November 2003, a subsidiary of CTIH issued 5.8% notes for the principal amount of USD175,000,000 at a discount. The notes are listed on the Singapore Exchange Securities Trading Limited and will be redeemed on 12 November 2013 at their principal amount. Interest on the notes is payable semi-annually in arrears. The effective interest rate applied to the notes is 5.9%.

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

The notes issued are unconditionally and irrevocably guaranteed by CTIH.

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

The notes issued are free of any collateral and guarantee.

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

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

(iv) On 16 March 2009, TPL, a subsidiary of CTIH, issued 5.6% subordinated notes at par for the principal amount of RMB300,000,000. The notes will mature during March 2019 but the notes can be redeemed at the fifth anniversary year of the issue date at par value at the discretion of TPL. Interest on the notes is payable annually in arrears.

The notes issued are free of any collateral and guarantee.

(v) On 28 October 2010, TPL, a subsidiary of CTIH, issued 4.8% subordinated notes at par for the principal amount of RMB3,700,000,000. The notes will mature during October 2020 but the notes can be redeemed at the fifth anniversary year of the issue date at par value at the discretion of TPL. Interest on the notes is payable annually in arrears.

The notes issued are free of any collateral and guarantee.

(vi) On 23 February 2011, TPL, a subsidiary of CTIH issued 4.8% subordinated notes at par for the principal amount of RMB300,000,000. The notes will mature during February 2021 but the notes can be redeemed at the fifth anniversary year of the issue date at par value at the discretion of TPL. Interest on the notes is payable annually in arrears.

The notes issued are free of any collateral and guarantee.

(vii) On 22 November 2012, a subsidiary of CTIH, issued 4.125% notes for the principal amount of USD300,000,000 at a discount of 0.728%. The notes are listed on The Stock Exchange of Hong Kong Limited and will mature on 21 November 2022 but the notes can be redeemed at anytime at par plus accrued interest and premium at the discretion of the subsidiary. Interest on the notes is payable semi-annually in arrears. The directors considered that the fair value of redemption option of notes issued is insignificant and, accordingly, is not recognised in the financial statements.

The notes may be redeemed by the subsidiary, at its option, at any time at par plus accrued interest, in the event of certain tax changes as described under “Conditions of the Notes – Redemption and Purchase” in the offering circular dated 14 November 2012.

The notes issued are unconditionally and irrevocably guaranteed by CTIH.

(b) Bank loans and other borrowings

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
Bank loans		
– unsecured	4,320,305	3,719,972
Unsecured loans	9,660	9,660
	4,329,965	3,729,632

The loans are repayable as follows:

	31.12.2012	**31.12.2011**
	HK$'000	*HK$'000*
Within 1 year	607,363	9,660
After 1 year but within 5 years	3,722,602	3,719,972
	4,329,965	3,729,632

The amounts presented in the above table are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2012, all bank loans are unsecured and carry interest at HIBOR + 0.8% to HIBOR + 2.1% (31.12.2011: HIBOR + 0.8% to HIBOR + 1.3%) per annum, with effective interest rates ranging from 1.48% to 2.68% (31.12.2011: 1.48% to 2.16%) per annum.

36. Insurance creditors

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Amounts due to insurance customers, reinsurers and insurance intermediaries	1,798,513	1,316,797
Deposits retained from reinsurers/retrocessionaries	307,906	177,031
Prepaid premiums received	2,431,607	1,572,188
Collateral deposits held	64,926	62,113
	4,602,952	3,128,129

Included in insurance creditors is an amount of HK$4,602,952,000 (31.12.2011: HK$3,128,129,000) which is expected to be settled within one year.

37. Other creditors and accrued charges

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Payable for acquisition of additional interest in a subsidiary	–	293,080
Amounts due to securities brokerage customers	38,583	33,905
Amounts payable to brokers for unsettled trades	8,854	6,201
Capital expenditure payable	252,855	322,990
Deposits received from agents	61,630	52,643
Interest payable	215,266	140,569
Salary and staff benefits payable	2,268,180	1,812,065
Accrued charges and others	1,754,606	1,369,458
	4,599,974	4,030,911

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

38. Insurance protection fund

The amount represents the amount payable to the insurance protection fund at the end of the reporting period. According to the CIRC's Order (2008) No. 2 "Administration rule on insurance protection fund", the insurance protection fund is calculated on the basis of 0.8% of retained premium for accident and short-term health policies, 0.15% of retained premium for long-term life and long-term health policies with guaranteed interest, and 0.05% of retained premium for long-term life policies without guaranteed interest. The ceiling of the fund for a life insurance company is 1% of its total assets and for a property and casualty insurance company 6% of its total assets.

39. Derivative financial instruments

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Assets:		
Forward foreign exchange contracts *(Note a)*	24	–
Liabilities:		
Interest rate swaps *(Note b)*	6,495	45,005
Forward foreign exchange contracts *(Note a)*	33	–
	6,528	45,005

Notes:

(a) The major terms of forward foreign exchange contracts as at 31 December 2012 are as follows:

Assets:

Aggregate notional amount	Maturity date	Forward amount contracts	Contractual exchange rate
			SGD/USD
USD1,000,000	25 February 2013	Sell USD less than 3 months	1.226
USD7,100,000	18 March 2013	Sell USD less than 3 months	8.670

(b) The Group uses interest rate swaps to manage its exposure to volatility in interest payments relating to certain floating-rate long term borrowings.

The amount represents fair value at the end of the reporting periods of interest rate swap contracts which are not qualified for hedging accounting.

The major terms of interest rate swaps as at 31 December 2012 are as follows:

Aggregate notional amount	Maturity dates	Swaps
HK$350,000,000	From 24 June 2013 to 21 August 2013	Fixed rates ranging from 3.68% to 4.29% for HIBOR

The major terms of interest rate swaps as at 31 December 2011 are as follows:

Aggregate notional amount	Maturity dates	Swaps
HK$1,200,000,000	From 29 June 2012 to 21 August 2013	Fixed rates ranging from 2.95% to 4.29% for HIBOR

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

40. Equity compensation benefits

Share option scheme

A subsidiary of the Group had a share option scheme which was adopted on 24 May 2000 ("the Old Scheme") whereby the directors of the subsidiary were authorised, at their discretion, to invite employees of the subsidiary and its subsidiaries, including directors, to take up options to subscribe for shares of the subsidiary. Options granted between 24 May 2000 and 31 December 2002 were granted under the Old Scheme and in accordance with the requirements of Chapter 17 of the Rules governing the listing of securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules") which came into effect on 1 September 2001.

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

All of the share options are settled in equity.

The following table discloses movements in the number of share options held by employees (including directors):

Option type	Outstanding at 1.1.2012	Lapsed during the year	Exercised during the year	Outstanding at 31.12.2012
2002	700,000	(700,000)	–	–
2006A	9,017,000	(2,500,000)	(600,000)	5,917,000
2007B	175,000	–	–	175,000
2007C	800,000	–	–	800,000
2007D	175,000	–	–	175,000
2007E	175,000	–	–	175,000
2008A	175,000	–	–	175,000
2008B	175,000	–	–	175,000
2009	350,000	–	–	350,000
2010A	175,000	–	–	175,000
2010B	175,000	–	–	175,000
2011A	175,000	–	–	175,000
2011B	175,000	–	–	175,000
	12,442,000	(3,200,000)	(600,000)	8,642,000
Exercisable at the end of the reporting period				8,642,000

Option type	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Outstanding at 31.12.2011
2002	1,100,000	–	(400,000)	700,000
2006A	10,277,000	–	(1,260,000)	9,017,000
2007B	175,000	–	–	175,000
2007C	800,000	–	–	800,000
2007D	175,000	–	–	175,000
2007E	175,000	–	–	175,000
2008A	175,000	–	–	175,000
2008B	175,000	–	–	175,000
2009	350,000	–	–	350,000
2010A	175,000	–	–	175,000
2010B	175,000	–	–	175,000
2011A	–	175,000	–	175,000
2011B	–	175,000	–	175,000
	13,752,000	350,000	(1,660,000)	12,442,000
Exercisable at the end of the reporting period				12,442,000

In respect of the share options exercised during the year ended 31 December 2012, the weighted average share price at the dates of exercise was HK$14.76 (2011: HK$19.14).

Details of specific categories of options are as follows:

Option type	Date granted	Exercise period	Exercise price
			HK$
2002	12 September 2002 to 23 September 2002	12 September 2002 to 22 September 2012	3.225
2006A	2 November 2005	23 November 2005 to 27 November 2015	2.875
2007B	29 December 2006	29 December 2006 to 28 December 2016	9.800
2007C	26 February 2007	26 February 2007 to 25 February 2017	9.490
2007D	29 June 2007	29 June 2007 to 28 June 2017	14.220
2007E	31 December 2007	31 December 2007 to 30 December 2017	21.400
2008A	30 June 2008	30 June 2008 to 29 June 2018	19.316
2008B	31 December 2008	31 December 2008 to 30 December 2018	11.920
2009	31 December 2009	31 December 2009 to 30 December 2019	25.100
2010A	30 June 2010	30 June 2010 to 29 June 2020	25.910
2010B	31 December 2010	31 December 2010 to 30 December 2020	24.180
2011A	30 June 2011	30 June 2011 to 29 June 2021	17.580
2011B	30 December 2011	30 December 2011 to 29 December 2021	14.728

Fair value of share options and assumptions

HKFRS 2 requires that, when the Group grants employees options to acquire shares of the Group's subsidiary, the Group recognises the fair value of the options granted as an expense in the profit or loss with a corresponding increase in the employee share-based compensation reserve within equity.

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

Fair value of share options and assumptions are as follows:

	Date of grant	
	31.12.2011	**30.6.2011**
Fair value at measurement date *(HK$)*	6.638611	7.368792
Share price *(HK$)*	14.400	17.580
Exercise price *(HK$)*	14.728	17.580
Expected volatility *(Note (i))*	41.273%	33.969%
Option life *(contractual life)*	10	10
Expected dividends *(Note (ii))*	0.77%	0.77%
Risk-free interest rate *(Note (iii))*	1.465%	2.271%

Notes:

(i) The expected volatility is based on the historical volatility of the share price of the subsidiary, which grants the options during the year, one year immediately preceding the grant date.

(ii) Expected dividends are based on historical dividends since the listing of the subsidiary which grants the options.

(iii) Risk-free interest rate is based on the yield of the 10-year Hong Kong Exchange Fund Note.

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

Share award scheme

The share award scheme was adopted on 10 September 2007. The purpose of the share award scheme is to recognise and reward certain employees (including without limitation an employee who is also a director) of the Group and the ultimate holding company and its subsidiaries for their contributions to the Group and to give long-term incentives for retaining them for the continued operations and development of the Group.

Under the share award scheme, the directors of the subsidiaries may, from time to time, at their 0absolute discretion and subject to such terms and combinations as they may think fit select an employee for participation in the share award scheme and determine the number of shares to be awarded. Unless terminated earlier by the directors of the subsidiaries, the share award scheme shall be valid and effective for a term of 10 years commencing from the respective adoption date, and after such period no new award of shares shall be granted.

The shares awarded under the share award scheme are the shares of CTIH, a subsidiary of the Company, the shares of which are listed on The Main Board of the Stock Exchange of Hong Kong Limited.

(i) Movements in the number of awarded shares were as follows:

	Number of awarded shares	
	2012	**2011**
At 1 January	604,000	3,465,800
Awarded *(Note a)*	–	–
Vested *(Note b)*	(18,600)	(2,847,600)
Revoked *(Note c)*	(17,800)	(14,200)
At 31 December *(Note d)*	567,600	604,000

Notes:

(a) No awarded shares are purchased from the market during the years ended 31 December 2012 and 2011.

(b) The amount represents awarded shares that vested during the year.

(c) The amount represents awarded shares that lapsed automatically, according to the conditions under the share award scheme.

(d) At the end of the year, the average fair value per awarded share is HK$25.42 (31.12.2011: HK$25.38). The average fair value of the awarded shares is based on the closing bid price at the date of award and any directly attributable incremental cost.

Apart from the awarded shares, as at 31 December 2012, 969,200 shares (31.12.2011: 951,400 shares) are deemed as unallocated shares which are held under share award scheme and are available for future award and/or disposal pursuant to the rules of share award scheme.

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

	Number of awarded shares	
Remaining vesting period	**At 31.12.2012**	**At 31.12.2011**
Vested	567,600	–
1 year	–	604,000
	567,600	604,000

41. Share capital

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$100 each		
Authorised:		
At 31 December 2011 and 31 December 2012	500,000	50,000,000
Issued:		
At 31 December 2011 and 31 December 2012	35,945	3,594,500

There were no movements in the Company's share capital during both years.

42. Reserves

	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	852,780	1,018,751	(472,602)	213,414	7,569,570	94,324	9,276,237	22,890	10,716,140	20,015,267
Profit for the year	–	–	–	–	957,846	–	957,846	–	919,702	1,877,548
Other comprehensive income	–	44,923	687,588	30,602	–	–	763,113	–	1,537,661	2,300,774
Revaluation gain arising from reclassification of owner-occupied properties, prepaid lease, payments and construction in progress into investment properties	–	–	–	30,602	–	–	30,602	–	86,838	117,440
– revaluation gain arising during the year	–	–	–	38,655	–	–	38,655	–	114,213	152,868
– net deferred tax	–	–	–	(8,053)	–	–	(8,053)	–	(27,375)	(35,428)
Exchange differences on translation of the financial statements of subsidiaries	–	44,923	–	–	–	–	44,923	–	3,096	48,019
Share of other comprehensive expenses of associates	–	–	(9)	–	–	–	(9)	–	–	(9)
Available-for-sale securities	–	–	687,597	–	–	–	687,597	–	1,447,727	2,135,324
– net change in fair value	–	–	36,294	–	–	–	36,294	–	(237,695)	(201,401)
– net deferred tax	–	–	(167,329)	–	–	–	(167,329)	–	(434,133)	(601,462)
– transferred to profit or loss	–	–	818,632	–	–	–	818,632	–	2,119,555	2,938,187
Total comprehensive income.	–	44,923	687,588	30,602	957,846	–	1,720,959	–	2,457,363	4,178,322
Equity settled share-based transactions	(843)	–	–	–	1,953	181	1,291	296	5,469	7,056
Share options exercised	(843)	–	–	–	–	–	(843)	(410)	2,978	1,725
Amortisation arising from share award scheme	–	–	–	–	–	–	–	2,840	2,491	5,331
Transfer to retained profits for revoked shares under share award scheme	–	–	–	–	183	–	183	(183)	–	–
Vested share for share award scheme	–	–	–	–	61	181	242	(242)	–	–
Share options lapsed.	–	–	–	–	–	1,709	1,709	(1,709)	–	–
Capital contribution made to subsidiaries.	–	–	–	–	–	–	–	–	238,424	238,424
At 31 December 2012	851,937	1,063,674	214,986	244,016	8,529,369	94,505	10,998,487	23,186	13,417,396	24,439,069

	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011, as previously stated	1,103,551	734,370	592,718	64,880	6,154,539	32,466	8,682,524	52,662	11,616,914	20,352,100
Effect of change in accounting policy	–	–	–	–	54,661	–	54,661	–	47,955	102,616
At 1 January 2011, as restated	1,103,551	734,370	592,718	64,880	6,209,200	32,466	8,737,185	52,662	11,664,869	20,454,716
Profit for the year	–	–	–	–	1,357,910	–	1,357,910	–	649,813	2,007,723
Other comprehensive income (expense)	–	284,381	(1,065,320)	148,534	–	–	(632,405)	–	(1,577,082)	(2,209,487)
Revaluation gain arising from transfers of land and buildings, prepaid lease payments and construction in progress to investment properties	–	–	–	148,534	–	–	148,534	–	317,414	465,948
– revaluation gain arising during the year	–	–	–	197,636	–	–	197,636	–	422,096	619,732
– net deferred tax	–	–	–	(49,102)	–	–	(49,102)	–	(104,682)	(153,784)
Exchange differences on translation of the financial statements of subsidiaries	–	284,371	–	–	–	–	284,371	–	453,511	737,882
Share of other comprehensive income of a jointly controlled entity	–	10	–	–	–	–	10	–	–	10
Share of other comprehensive income of associates	–	–	(322)	–	–	–	(322)	–	–	(322)
Available-for-sale securities	–	–	(1,064,998)	–	–	–	(1,064,998)	–	(2,348,007)	(3,413,005)
– net change in fair value	–	–	(1,582,260)	–	–	–	(1,582,260)	–	(3,613,888)	(5,196,148)
– net deferred tax	–	–	277,493	–	–	–	277,493	–	744,992	1,022,485
– transferred to profit or loss	–	–	239,769	–	–	–	239,769	–	520,889	760,658
Total comprehensive income (expense)	–	284,381	(1,065,320)	148,534	1,357,910	–	725,505	–	(927,269)	(201,764)
Equity settled share-based transactions	(3,258)	–	–	–	2,460	30,658	29,860	(29,772)	12,721	12,809
Share options exercised	(3,258)	–	–	–	–	–	(3,258)	(861)	9,032	4,913
Share options granted	–	–	–	–	–	–	–	1,306	1,145	2,451
Amortisation arising from share award scheme	–	–	–	–	–	–	–	2,901	2,544	5,445
Transfer to retained profits for revoked shares under share award scheme	–	–	–	–	59	–	59	(59)	–	–
Vested share for share award scheme	–	–	–	–	2,401	30,658	33,059	(33,059)	–	–
Acquisition of additional interests in subsidiaries	(247,513)	–	–	–	–	–	(247,513)	–	(101,752)	(349,265)
Deemed contribution from holding company	–	–	–	–	–	31,200	31,200	–	–	31,200
Capital contribution made to subsidiaries	–	–	–	–	–	–	–	–	67,571	67,571
At 31 December 2011	852,780	1,018,751	(472,602)	213,414	7,569,570	94,324	9,276,237	22,890	10,716,140	20,015,267

43. Fair values of financial instruments

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- The fair values of derivative instruments are estimated using discounted cash flow analysis and the applicable yield curve for the duration of the non-optional derivative;

- The fair value of unlisted investment funds and unlisted debt securities included in financial assets at fair value through profit or loss and available-for-sale investments are established by reference to the prices quoted by respective fund administrators or by using valuations techniques including the use of recent arm's length transactions and discounted cash flow analysis; and

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values, except for debt securities classified as held-to-maturity and loans and receivables as set out in note 20 and interest-bearing notes as set out in note 35(a).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31.12.2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Held-for-trading investments	1,409,292	226,132	–	1,635,424
Securities designated at fair value through profit or loss	245,252	554,972	–	800,224
Derivative financial instruments	–	24	–	24
Available-for-sale financial assets	25,408,693	16,583,179	–	41,991,872
Total	27,063,237	17,364,307	–	44,427,544
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	6,528	–	6,528

	31.12.2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Held-for-trading investments	633,838	55,508	–	689,346
Securities designated at fair value through profit or loss	198,761	–	–	198,761
Available-for-sale financial assets	23,026,440	11,277,554	–	34,303,994
Total	23,859,039	11,333,062	–	35,192,101
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	45,005	–	45,005

There were no transfers between Levels 1 and 2 during both years.

44. Capital commitments

Capital commitments outstanding as of 31 December 2012 and 2011 were as follows:

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Capital expenditure for property and equipment contracted for but not provided for in the consolidated financial statements	985,957	1,031,888
Capital expenditure for property and equipment authorised but not contracted for in the consolidated financial statements	2,304,242	–

45. Operating leases

The Group as lessee

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 year	376,559	303,497
After 1 year but within 5 years	461,958	331,419
After 5 years	13,410	16,077
	851,927	650,993

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

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012	2011
	HK$'000	*HK$'000*
Within 1 year	377,820	265,370
After 1 year but within 5 years	447,322	442,708
After 5 years	30,505	44,624
	855,647	752,702

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

46. Pledged assets

Other than the statutory deposits as set out in note 27 to the consolidated financial statements, the Group has pledged the following assets according to the relevant insurance rules and regulations:

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Plant, plant and equipment	8,190	9,211
Investment properties	34,254	19,744
Investments in securities	273,580	220,935
	316,024	249,890

Other than the pledged bank deposits as set out in note 28 to the consolidated financial statements, the Group has pledged the following assets to secure bank loans and general banking facilities:

	31.12.2012	31.12.2011
	HK$'000	*HK$'000*
Plant, plant and equipment	5,249	5,618

47. Contingent liabilities

Other than those incurred in the normal course of the Group's businesses, there was no outstanding litigation nor any other contingent liabilities as of 31 December 2012.

48. Events after the reporting period

(a) Quicken Assets Limited, a wholly-owned subsidiary of CTIH, has entered into a loan agreement with a financial institution and obtained a loan facility of US$250 million in December 2012. The loan facility is for five years, is unconditionally and irrevocably guaranteed by CTIH and bears interest at LIBOR plus 2.4% (effective rate). The proceeds of the loan facility will be used for financing the general working capital requirements of CTIH. Such loan facility was fully drawn in a single draw-down in January 2013.

(b) CTIH, together with TPG and Ageas Insurance International N.V. ("Ageas") have decided to increase the capital of TPL by RMB2,500 million to RMB6,230 million. CTIH, TPG and Ageas have contributed such additional capital in cash in the amount of RMB1,251.25 million, RMB626.25 million and RMB622.50 million, respectively, in proportion to their respective equity interests in TPL during January 2013. This additional capital contribution will allow TPL to further strengthen its solvency position to support its business development.

(c) CTIH, together with TPG have decided to increase the capital of TPP by RMB200 million. CTIH and TPG have contributed such additional capital in cash in the amount of RMB192 million and RMB8 million, respectively, in proportion to their respective equity interests in TPP during January 2013. This additional capital contribution will allow TPP to further strengthen its financial position to support its business development.

(d) On 19 April 2013, TPG informed the CTIH's Board that TPG has received joint approval and agreement in principle from the Ministry of Finance of the PRC and the CIRC in regards to a restructuring proposal of the TPG and its subsidiaries (including CTIH). The details of the possible acquisition were set out in the announcement of CTIH dated 19 April 2013.

49. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	Notes	2012 *HK$'000*	2011 *HK$'000*
Interest income from ultimate holding company	*(i)*	32,947	21,767
Interest income from a fellow subsidiary	*(i)*	–	490
Management fee income from a fellow subsidiary		–	2,463
Back office services	*(ii)*	260,336	207,602
Internal audit services	*(iii)*	52,059	48,797
Training services	*(iv)*	–	13,798

Notes:

(i) The Group provides financing services to the ultimate holding company and a fellow subsidiary, and receives interest income from those entities.

(ii) A fellow subsidiary of the Group provides back office services to the Group and receives services fee from the Group.

(iii) A fellow subsidiary of the Group provides internal audit services to the Group and receives service fee from the Group.

(iv) The Group has entered into agreements with TPG, the ultimate holding company, in respect of the provision of training services by TPG to the Group.

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

(a) On 28 December 2011, TPL, TPI and CTIH entered into a supplemental agreement ("TPAM Supplemental Agreement") and Taiping Assets Management (HK) Company Limited ("TPA(HK)") and Ageas entered into a supplemental agreement ("Ageas Supplemental Agreement") to amend the terms of the share transfer agreement for CTIH to purchase in aggregate a 60% equity interest in Taiping Asset Management Company Limited ("TPAM") ("TPAM Share Transfer Agreement"), and the terms of the share transfer agreement for TPA(HK) to sell a 12% equity interest in TPAM ("TPAM Ageas Agreement"). Upon the execution of the supplemental agreements mentioned above, the TPAM Share Transfer Agreement (as amended by the TPAM Supplemental Agreement) and the TPAM Ageas Agreement (as amended by the Ageas

Supplemental Agreement) became unconditional and the transaction was considered as complete on the same date. The details of the transaction were set out in the announcement of CTIH dated 28 December 2011.

(b) On 27 July 2011, relevant approvals for the respective contributions of RMB214,163,335 and RMB285,836,665 by TPG and the CTIH to the registered capital of TPI have been obtained. Accordingly, the capital increase of TPI from RMB1,570,000,000 to RMB2,070,000,000 has been completed. The shareholding interest of TPI held by the Group has increased from 26.70% to 27.59%. The details of the transaction were set out in the announcement of the CTIH dated 27 July 2011. On 29 June 2012, relevant approvals for the respective contributions of RMB116,370,000 and RMB183,630,000 by TPG and CTIH to the rigisted capital of TPI, in proportion to their respective equity interest in TPI, have been obtained. On 26 December 2012, relevant approvals for the respective contributions of RMB77,580,000 and RMB122,420,000 by TPG and CTIH to the registered capital of TPI, in proportion to their respective equity interest in TPI, have been obtained. Accordingly, the capital increase of TPI from RMB2,070,000,000 to RMB2,370,000,000 and from RMB2,370,000,000 to RMB2,570,000,000 have been completed. The details of the transactions were set out in announment of CTIH dated 29 June and 26 December 2012 respectively. After the capital contributions, the percentage of shareholding interest of TPI held by the Group remains unchanged.

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

The remuneration of directors and members of key management during the year was as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Short-term benefits	32,779	25,935
Share-based payments	494	2,945
Post-employment benefits	311	332
	33,584	29,212

The remuneration of directors and members of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

50. Accounting estimates and judgements

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

(a) Impairment of goodwill and intangible assets

The Group assesses annually if the goodwill and intangible assets associated with acquisition of subsidiaries and associates have suffered any impairment loss in accordance with the accounting policies stated in note 3. The recoverable amount of the goodwill and intangible assets is determined using discounted cash flows which require the use of estimated revenue from business operations, investment returns and an appropriate discount rate. Details of the goodwill and intangible assets are set out in note 15.

(b) Held-to-maturity investments

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

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets, as such class is deemed to have been tainted. This would result in held-to-maturity investments being measured at fair value instead of at amortised cost. Details of the held-to-maturity investments are set out in note 20.

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

The Group follows the guidance of HKAS 39 when determining whether there has been a significant or prolonged decline in the fair value of an available-for-sale investment below its cost. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost. Details of the available-for-sale investments are set out in note 20.

(d) ***Determination of insurance liabilities***

The Group's insurance liabilities are mainly comprised of unearned premium reserves, outstanding claims reserves and life insurance contract liabilities and estimates for premiums and claims data not received from ceding companies at the reporting date. The Group determines these estimates on the basis of historical information, actuarial analyses, financing modelling and other analytical techniques. The directors continually review the estimates and make adjustments as necessary, but actual results could differ significantly from what is envisioned when these estimates are made. Details of the assumptions used in determining life insurance funds, the unearned premium reserve and outstanding claims reserves are set out in notes 30, 31, and 32, respectively.

(e) ***Deferred tax liabilities***

As at 31 December 2012, a deferred tax liability of HK$1,070 million (31.12.2011: HK$1,071 million) has been recognised in the Group's consolidated statement of financial position, as a result of the increase in profit for prior years due to the change in accounting policies on insurance contracts of one of its subsidiary in the PRC. The PRC tax rules and regulations up to the date of the report are not clear enough to support that no provision of tax liability is required for the profits related to the current and previous years. In view of its nature, the directors consider that such a provision should be presented as a deferred liability as set out in note 26(b). In cases there are further developments in the tax rules and regulations, a material reversal of deferred tax liability may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. Details of the deferred tax liabilities are set out in note 26(b).

(f) ***Deferred tax assets***

As at 31 December 2012, deferred tax assets of HK$327,264,000 (31.12.2011: HK$175,402,000) in relation to unused tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of certain tax losses of HK$2,025,927,000 (31.12.2011: HK$1,860,526,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. Details of the deferred tax assets are set out in note 26.

(g) ***Fair value of investment properties***

As at 31 December 2012, the Group's investment properties are stated at fair value of HK$9,294 million (31.12.2011: HK$8,229 million) based on the valuations performed by independent qualified professional valuers. In determining the fair value, the valuers have applied market value basis which involves, inter-alia, certain estimates, including comparable market transactions and appropriate capitalisation rates. In relying on the valuations, management has exercised judgement and is satisfied that the method of valuation is reflective of current market conditions. Favourable or unfavourable change to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustment to the amount of gain or loss reported in profit or loss. Details of the investment properties are set out in note 13.

(h) ***Deferred taxation on investment properties***

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties located in Hong Kong, Macau and Singapore are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties located in Hong Kong, Macau and Singapore measured using the fair value model are recovered entirely through sale is not rebutted. For those investment properties of the Group located in the PRC, they are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, and therefore the presumption is rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong, Macau and Singapore as the Group is not subject to any income taxes on disposal of its investment properties.

51. Particulars of principal subsidiaries of the company

Details of the Company's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of company	Place/country of incorporation or registration/ operation	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of ownership interest and voting power held by the Company				Principal activities
				Directly		Indirectly		
				2012	2011	2012	2011	
China Taiping Insurance Holdings Co. Ltd. *(Note (i))*	Hong Kong	Ordinary shares	HK$85,293,755 (2011: HK$85,263,755)	37.72%	37.73%	15.55%	15.56%	Investment holding
Taiping Reinsurance Company Limited *(Notes (ii) & (vi))*	Hong Kong	Ordinary shares Deferred shares	HK$1,250,000,000 (2011: HK$1,000,000,000) HK$600,000,000	–	–	53.27%	53.29%	Reinsurance
Taiping Life Insurance Company Limited *(Notes (iii) & (v))*	PRC	Registered capital	RMB3,730,000,000	–	–	26.66%	26.67%	Life insurance
Taiping General Insurance Company Limited *(Note) (Notes (iii), (iv), (v) & (vii))*	PRC	Registered capital	RMB2,570,000,000 (2011: RMB2,070,000,000)	–	–	32.61%	32.62%	Property and casualty insurance
China Taiping Insurance (HK) Co. Ltd.	Hong Kong	Ordinary shares Deferred shares	HK$2,386,000,000 HK$200,000,000	–	–	53.27%	53.29%	Property and casualty insurance
Taiping Asset Management Company Limited *(Notes (iii) & (v))*	PRC	Registered capital	RMB100,000,000	–	–	31.96%	31.97%	Asset management business in the PRC
Taiping Pension Company Limited *(Note (iii), (v) & Note 47(a))*	PRC	Registered	RMB1,500,000,000	–	–	51.14%	51.16%	Pension and group life business
China Taiping Insurance (Macau) Co. Ltd.	Macau	Ordinary shares	MOP80,000,000	100%	100%	–	–	Property and casualty insurance
China Taiping Insurance (Singapore) Pte Ltd.	Singapore	Ordinary shares	SGD50,000,000	100%	100%	–	–	Property and casualty insurance
China Taiping Insurance (UK) Co. Ltd.	United Kingdom	Ordinary shares	GBP15,000,000	100%	100%	–	–	Property and casualty insurance
Taiping Investment Holdings Company Limited	Hong Kong	Ordinary shares	HK$215,000,000	100%	100%	–	–	Investment holding
Taiping Financial Holdings Company Limited (formerly known as Taiping Securities Holdings (HK) Co. Ltd.) *(Note (viii))*	Hong Kong	Ordinary shares Non-voting deferred shares	HK$224,553,150 (2011: HK$20,000,000) HK$10,000,000	100%	100%	–	–	Investment holding
Taiping Assets Management (HK) Company Limited	Hong Kong	Ordinary shares	HK$212,000,000	–	–	53.27%	53.29%	Asset management business in Hong Kong
Taiping Reinsurance Brokers Limited *(Note (ii))*	Hong Kong	Ordinary shares Deferred shares	HK$4,000,000 HK$1,000,000	–	–	53.27%	53.29%	Insurance broker
Taiping Real Estate Shanghai Company Limited *(Note (iii))*	PRC	Registered capital	RMB980,000,000	–	–	71.40%	71.40%	Property development
Dragon Jade Industrial District Management (Shenzhen) Company Limited *(Note (iii))*	PRC	Registered capital	HK$40,000,000	100%	100%	–	–	Property development
China Taiping Insurance (NZ) Co., Ltd.	New Zealand	Ordinary shares	NZD9,027,028	100%	100%	–	–	Property and casualty insurance
China Taiping Insurance Service (Japan) Co., Ltd.	Japan	Ordinary shares	JPY30,000,000	100%	100%	–	–	Insurance agency
Taiping E-Commerce Company Limited *(Notes (iii) & (ix))*	PRC	Ordinary shares	RMB50,000,000	–	–	53.27%	–	E-commerce for insurance
Taiping Senior Living Investment Co., Ltd. *(Notes (iii) & (x))*	PRC	Ordinary shares	RMB580,000,000	–	–	26.67%	–	Elderly care investment and asset management

Notes:

(i) During the year ended 31 December 2012, options were exercised to subscribe for 600,000 ordinary shares in CTIH and CTIH's ordinary shares increased by HK$30,000.

(ii) Holders of the non-voting deferred shares in Taiping Reinsurance Company Limited and Taiping Reinsurance Brokers Limited are not entitled to share profits, receive notice of or attend or vote at any general meeting of these companies. On the winding-up of these companies, the holders of the non-voting deferred shares are not entitled to the distribution of the net assets of these companies for the first $100 billion; the balance of net assets, if any, over the first $100 billion shall be distributed among the holders of the ordinary shares and non-voting distributed shares *pari passu* among themselves in proportion to their respective shareholdings.

(iii) These companies are PRC limited companies.

(iv) In August 2011, CTIH entered into a share transfer agreement with Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)"), an independent third party of the Group, to acquire a 9.44% equity interest in TPI from ICBC (Asia) for a consideration of RMB264,000,000. The details of transaction were set out in the announcement of the CTIH dated 17 August 2011.

(v) China Taiping Insurance Group Co, the ultimate holding company of the Company, holds 38.79%, 25.05%, 4% and 20% in TPI, TPL, TPP and TPAM, respectively.

(vi) In September 2012, the registered capital of Taiping Reinsurance Company Limited has been increased by 250 million to 1,850 million. CTIH has contributed such additional capital in cash.

(vii) In June and December 2012, the registered capital of TPI has been increased by RMB 300 million and RMB 200million, respectively. CTIH and TPG have contributed such additional capital in cash in the amount of RMB306.05million and RMB193.95 million, respectively, in proportion to their respective equity interests in TPI.

(viii) During 2012, the registered capital of Taiping Financial Holdings Company Limited has been increased by HK$204,553,150 by capitalising its retained profit.

(ix) In July 2012, Taiping E-Commerce Company Limited was established in the PRC by CTIH.

(x) In October 2012, Taiping Senior Living Investment Co., Ltd. was established in the PRC by TPL.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF
CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED
中國太平保險集團(香港)有限公司
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Taiping Insurance Group (HK) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 2 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 September 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 30 June 2013

	Notes	Six months ended 30 June 2013 HK$'000 (unaudited)	Six months ended 30 June 2012 HK$'000 (unaudited)
Revenue – Gross premiums written and policy fees	4	51,165,331	32,084,953
Less: Premiums ceded to reinsurers and retrocessionaires		(1,751,246)	(1,464,254)
Net premiums written and policy fees		49,414,085	30,620,699
Change in unearned premium provisions, net of reinsurance		(1,277,966)	(968,983)
Net earned premiums and policy fees		48,136,119	29,651,716
Net investment income	5(a)	4,855,403	3,843,672
Net realised and unrealised investment gains (losses) and impairment	5(b)	160,499	(803,478)
Other income	6(a)	316,200	226,684
Other losses	6(b)	(14,590)	(36,730)
		53,453,631	32,881,864
Benefits, losses and expenses			
Net policyholders' benefits	7(a)	(9,950,169)	(7,492,654)
Net commission expenses	7(b)	(4,263,757)	(2,648,115)
Change in life insurance contract liabilities, net of reinsurance		(31,227,746)	(16,181,236)
Administrative and other expenses		(6,547,901)	(4,769,762)
Total benefits, losses and expenses		(51,989,573)	(31,091,767)
Profit from operations		1,464,058	1,790,097
Share of results of associates		25,193	32,930
Share of results of a joint venture		5	–
Finance costs	8(a)	(410,846)	(348,887)
Profit before taxation	8	1,078,410	1,474,140
Income tax charge	9	(252,240)	(284,740)
Profit after taxation		826,170	1,189,400
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of the financial statements of subsidiaries outside Hong Kong		(50,745)	(14,944)
Available-for-sale securities			
– Net fair value changes during the period		1,270,634	660,212
– Reclassification adjustment to profit or loss on disposal		(197,936)	355,824
– Reclassification adjustment to profit or loss on impairment		278,729	883,738
– Net deferred tax		(113,552)	(448,916)
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of subsidiaries outside Hong Kong		310,091	(71,008)
Revaluation gain arising from reclassification of own-use properties to investment properties			
– Revaluation gain arising during the period		38,136	96,352
– Net deferred tax		(4,585)	(11,530)
Other comprehensive income for the period		1,530,772	1,449,728
Total comprehensive income for the period		2,356,942	2,639,128
Profit after taxation attributable to:			
Owners of the Company		413,819	509,452
Non-controlling interests		412,351	679,948
		826,170	1,189,400
Total comprehensive income attributable to:			
Owners of the Company		2,031,195	899,522
Non-controlling interests		325,747	1,739,606
		2,356,942	2,639,128

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	Notes	30 June 2013	31 December 2012
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Assets			
Statutory deposits	10	4,577,543	2,606,406
Property and equipment	11	4,809,544	4,621,362
Investment properties	12	9,868,309	9,293,711
Prepaid lease payments		165,291	164,177
Goodwill		1,051,215	1,051,215
Intangible assets		263,381	264,509
Interests in associates		858,293	840,868
Interest in a joint venture		213	208
Construction in progress		146,549	115,703
Investments in debt and equity securities	13	187,318,795	161,752,020
Securities purchased under resale agreements	17	2,437,504	80,163
Derivative financial instruments		–	24
Insurance debtors	14	3,695,498	2,834,486
Reinsurers' share of insurance contract provisions		3,160,342	3,047,112
Policyholder account assets in respect of unit-linked products		2,928,484	3,141,049
Other debtors	15	13,425,481	8,493,129
Amounts due from group companies		4,233,485	2,990,980
Tax recoverable		32,150	25,737
Deferred tax assets		155,131	144,029
Pledged deposits at banks		295,835	295,355
Deposits at banks with original maturity more than three months		35,883,524	36,444,809
Cash and cash equivalents	16	17,030,296	19,652,046
Total assets		292,336,863	257,859,098
Liabilities			
Life insurance contract liabilities		154,887,030	121,422,778
Unearned premium provisions		8,337,819	6,655,614
Provision for outstanding claims		11,656,080	11,324,423
Investment contract liabilities		22,505,205	25,981,726
Securities sold under repurchase agreements	17	29,577,213	35,426,815
Interest-bearing notes		13,489,423	13,334,736
Bank loans and other borrowings	18	7,156,167	4,329,965
Derivative financial instruments		3,253	6,528
Insurance creditors	19	4,995,995	4,602,952
Other creditors		4,795,277	4,599,974
Amounts due to group companies		189,502	36,587
Current taxation		402,516	329,135
Deferred tax liabilities		2,030,203	1,711,816
Insurance protection fund		83,753	62,480
Total liabilities		260,109,436	229,825,529
Net assets		32,227,427	28,033,569
Capital and reserves			
Share capital	20	3,594,500	3,594,500
Reserves	21	13,045,975	10,998,487
Equity attributable to owners of the Company		16,640,475	14,592,987
Employee share-based compensation reserve of a subsidiary		13,893	23,186
Non-controlling interests		15,573,059	13,417,396
Total equity		32,227,427	28,033,569

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company										
	Share capital	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserve	Retained profits	Other reserves	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2012	3,594,500	852,780	1,018,751	(472,602)	213,414	7,569,599	94,324	12,870,766	22,890	10,716,111	23,609,767
Profit for the period	–	–	–	–	–	509,452	–	509,452	–	679,948	1,189,400
Other comprehensive income for the period	–	–	(46,868)	417,563	19,375	–	–	390,070	–	1,059,658	1,449,728
Total comprehensive income for the period	–	–	(46,868)	417,563	19,375	509,452	–	899,522	–	1,739,606	2,639,128
Capital contributions made to a subsidiary	–	–	–	–	–	–	–	–	–	142,746	142,746
Equity settled share-based transactions of a subsidiary	–	(620)	–	–	–	102	–	(518)	1,061	1,019	1,562
At 30 June 2012 (unaudited)	3,594,500	852,160	971,883	(55,039)	232,789	8,079,153	94,324	13,769,770	23,951	12,599,482	26,393,203
Balance at 1 January 2013	3,594,500	851,937	1,063,674	214,986	244,016	8,529,369	94,505	14,592,987	23,186	13,417,396	28,033,569
Profit for the period	–	–	–	–	–	413,819	–	413,819	–	412,351	826,170
Other comprehensive income for the period	–	–	73,134	1,530,030	14,212	–	–	1,617,376	–	(86,604)	1,530,772
Total comprehensive income for the period	–	–	73,134	1,530,030	14,212	413,819	–	2,031,195	–	325,747	2,356,942
Capital contributions made to a subsidiary	–	–	–	–	–	–	–	–	–	1,821,223	1,821,223
Deemed disposal of partial interest in a subsidiary	–	7,000	–	–	–	–	–	7,000	–	8,693	15,693
Equity settled share-based transactions of a subsidiary	–	–	–	–	–	2,499	6,794	9,293	(9,293)	–	–
At 30 June 2013 (unaudited)	3,594,500	858,937	1,136,808	1,745,016	258,228	8,945,687	101,299	16,640,475	13,893	15,573,059	32,227,427

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	24,776,692	13,627,996
NET CASH USED IN INVESTING ACTIVITIES	(31,381,587)	(11,945,038)
NET CASH GENERATED FROM FINANCING ACTIVITIES	3,983,145	206,055
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,621,750)	1,889,013
CASH AND CASH EQUIVALENTS AT 1 JANUARY	19,652,046	19,974,510
CASH AND CASH EQUIVALENTS AT 30 JUNE	17,030,296	21,863,523
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS:		
Deposits with banks and other financial institutions with original maturity less than three months	4,288,077	7,291,256
Money market fund	–	48,703
Cash at bank and in hand	12,742,219	14,523,564
	17,030,296	21,863,523

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2013

1. Basis of preparation

The unaudited condensed consolidated financial statements of China Taiping Insurance Group (HK) Company Limited and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34")"Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed consolidated financial statements have been prepared by the management of the Company for management purpose and for inclusion in a circular of the Company to be issued in connection with the proposed issuance of bonds of the Company.

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at fair value:

(i) investment properties;

(ii) investments in debt and equity securities classified as available-for-sale, other than those carried at cost less impairment;

(iii) investments in debt and equity securities classified as held-for-trading and designated at fair value through profit or loss;

(iv) policyholder account assets in respect of unit-linked products; and

(v) investment contract liabilities.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

The Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the presentation of the Group's condensed consolidated financial statements:

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employment Benefits
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) – INT 12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control that an investor has control over an investee when (a) it has power over an investee, (b) it is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The directors of the Company made an assessment as at the date of initial application of HKFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over all its subsidiaries in accordance with the new definition of control and the related guidance set out in HKFRS 10. The directors of the Company concluded that, in accordance with the requirements of HKFRS 10, there is no change in classification and thus no restatement is required.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 18.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories:

(a) items that will not be reclassified subsequently to profit or loss; and

(b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKAS 34 Interim Financial Reporting (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. Operating segments

The Group is organised primarily based on different types of businesses. The information reported to the Board, being the chief operating decision maker, for the purpose of resources allocations and performance assessment, are prepared and reported on such basis. Accordingly, the Group's operating segments are detailed as follows:

– Life insurance business;

– Property and casualty insurance business;

– Reinsurance business; and

– Other businesses which comprise the asset management business, insurance intermediary business, E-commerce pension and group life business, and property development business.

Information regarding the above segments is reported below. Management monitors the operating results of the Group's business units separately for the purpose of performance assessment.

(a) Segmental income statement for the six months ended 30 June 2013 (unaudited)

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Inter-segment elimination and adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue-gross premiums written and policy fees	40,304,562	7,816,505	2,217,039	878,411	(51,186)	51,165,331
Less: Premiums ceded to reinsurers and retrocessionaires	(116,179)	(1,171,708)	(268,297)	(195,062)	–	(1,751,246)
Net premiums written and policy fees	40,188,383	6,644,797	1,948,742	683,349	(51,186)	49,414,085
Change in unearned premium provisions, net of reinsurance	(13,310)	(854,339)	(321,504)	(88,813)	–	(1,277,966)
Net earned premiums and policy fees	40,175,073	5,790,458	1,627,238	594,536	(51,186)	48,136,119
Net investment income	4,081,027	362,750	160,581	268,928	(17,883)	4,855,403
Net realised and unrealised (losses) gains and impairment	(46,787)	47,727	18,031	144,522	(2,994)	160,499
Other income	211,888	23,763	352	292,057	(211,860)	316,200
Other gains (losses)	(5,695)	15,348	(76,571)	52,328	–	(14,590)
Total revenue	44,415,506	6,240,046	1,729,631	1,352,371	(283,923)	53,453,631
Benefits, losses and expenses						
Net policyholders' benefits	(5,905,476)	(2,930,423)	(888,867)	(225,403)	–	(9,950,169)
Net commission expenses	(3,280,275)	(494,729)	(571,412)	(47,386)	130,045	(4,263,757)
Change in life insurance contract liabilities, net of reinsurance	(31,085,078)	–	–	(142,668)	–	(31,227,746)
Administrative and other expenses	(3,588,805)	(2,297,583)	(50,253)	(753,926)	142,666	(6,547,901)
Total benefits, losses and expenses	(43,859,634)	(5,722,735)	(1,510,532)	(1,169,383)	272,711	(51,989,573)
	555,872	517,311	219,099	182,988	(11,212)	1,464,058
Share of results of associates	68,422	–	–	25,147	(68,376)	25,193
Share of results of a joint venture	–	–	–	5	–	5
Finance costs	(224,116)	(27,184)	–	(167,890)	8,344	(410,846)
Profit before taxation	400,178	490,127	219,099	40,250	(71,244)	1,078,410
Income tax charge	(110,335)	(27,695)	(24,036)	(89,982)	(192)	(252,240)
Segment profit (loss) for the year	289,843	462,432	195,063	(49,732)	(71,436)	826,170

Segment revenue (including gross premium written and policy fees) and segment profit (loss) represents the revenue and profit (loss) earned by each segment which is the measure reported to the management for the purpose of resources allocation and assessment of segment performance.

Segmental income statement for the six months ended 30 June 2012 (unaudited)

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Inter-segment elimination and adjustment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue-gross premiums written and policy fees	23,734,652	5,669,188	2,127,632	596,924	(43,443)	32,084,953
Less: Premiums ceded to reinsurers and retrocessionaires	(93,269)	(949,376)	(229,193)	(192,416)	–	(1,464,254)
Net premiums written and policy fees	23,641,383	4,719,812	1,898,439	404,508	(43,443)	30,620,699
Change in unearned premium provisions, net of reinsurance	20,800	(601,870)	(329,961)	(57,952)	–	(968,983)
Net earned premiums and policy fees	23,662,183	4,117,942	1,568,478	346,556	(43,443)	29,651,716
Net investment income	3,167,888	309,611	156,065	225,716	(15,608)	3,843,672
Net realised and unrealised (losses) gains and impairment	(1,133,923)	97,254	(6,062)	236,716	2,537	(803,478)
Other income	108,132	16,591	331	248,123	(146,493)	226,684
Other gains (losses)	3,146	5,707	(36,605)	(8,978)	–	(36,730)
Total revenue	25,807,426	4,547,105	1,682,207	1,048,133	(203,007)	32,881,864
Benefits, losses and expenses						
Net policyholders' benefits	(4,078,431)	(2,030,990)	(1,222,458)	(160,775)	–	(7,492,654)
Net commission expenses	(1,897,999)	(340,694)	(480,629)	(21,706)	92,913	(2,648,115)
Change in life insurance contract liabilities, net of reinsurance	(16,144,026)	–	–	(37,210)	–	(16,181,236)
Administrative and other expenses	(2,666,941)	(1,642,388)	(38,549)	(525,289)	103,405	(4,769,762)
Total benefits, losses and expenses	(24,787,397)	(4,014,072)	(1,741,636)	(744,980)	196,318	(31,091,767)
	1,020,029	533,033	(59,429)	303,153	(6,689)	1,790,097
Share of results of associates	71,609	–	–	32,925	(71,604)	32,930
Finance costs	(221,974)	(27,073)	(462)	(99,840)	462	(348,887)
Profit before taxation	869,664	505,960	(59,891)	236,238	(77,831)	1,474,140
Income tax charge	(80,620)	(111,260)	(15,724)	(74,959)	(2,177)	(284,740)
Segment profit (loss) for the year	789,044	394,700	(75,615)	161,279	(80,008)	1,189,400

Segment revenue (including gross premium written and policy fees) and segment profit (loss) represents the revenue and profit (loss) earned by each segment which is the measure reported to the management for the purpose of resources allocation and assessment of segment performance.

(b) *Segmental statement of financial position as at 30 June 2013 (unaudited)*

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Statutory deposits	3,389,607	690,260	68,152	429,524	4,577,543
Property and equipment	2,618,221	1,222,176	81,468	887,679	4,809,544
Investment properties	2,868,985	1,448,731	77,430	5,473,163	9,868,309
Prepaid lease payments	62,870	102,421	–	–	165,291
Goodwill	902,476	148,739	–	–	1,051,215
Intangible asset	–	263,381	–	–	263,381
Investment in associates	2,139	–	–	856,154	858,293
Interest in a joint venture	–	–	–	213	213
Construction in progress	2,763	139,273	–	4,513	146,549
Investments in debt and equity securities	165,355,615	10,993,446	5,173,145	5,796,589	187,318,795
Securities purchased under resale agreement	2,400,595	36,909	–	–	2,437,504
Insurance debtors	1,039,409	1,246,583	1,204,041	205,465	3,695,498
Reinsurers' share of insurance contract provisions	(283,059)	2,802,075	424,785	216,541	3,160,342
Policyholder account assets in respect of unit-linked products	2,928,484	–	–	–	2,928,484
Other debtors	11,881,111	762,270	199,333	582,767	13,425,481
Amounts due from group companies	37,219	785	13	4,195,468	4,233,485
Tax recoverable	–	32,150	–	–	32,150
Deferred tax assets	–	16,113	128,658	10,360	155,131
Pledged deposits at banks	–	57,799	222,036	16,000	295,835
Deposits at banks with original maturity more than three months	30,600,262	2,478,766	705,921	2,098,575	35,883,524
Cash and cash equivalents	10,674,249	2,836,042	1,131,683	2,388,322	17,030,296
Segment assets	234,480,946	25,277,919	9,416,665	23,161,333	292,336,863
Liabilities					
Life insurance contract liabilities	154,508,133	–	–	378,897	154,887,030
Unearned premium provisions	272,793	6,227,524	1,384,156	453,346	8,337,819
Provision for outstanding claims	78,550	6,928,466	4,338,044	311,020	11,656,080
Investment contract liabilities	21,842,553	–	–	662,652	22,505,205
Securities sold under repurchase agreements	28,819,768	223,669	11,299	522,477	29,577,213
Interest-bearing notes	8,976,182	878,787	–	3,634,454	13,489,423
Bank loans and other borrowings	–	–	–	7,156,167	7,156,167
Insurance creditors	2,577,201	1,797,847	275,193	345,754	4,995,995
Other creditors	2,220,941	1,169,050	40,821	1,364,465	4,795,277
Amounts due to group companies	55,666	37,322	5,668	90,846	189,502
Current taxation	–	196,789	196,518	9,209	402,516
Deferred tax liabilities	843,610	115,697	1,200	1,069,696	2,030,203
Insurance protection fund	45,352	33,071	–	5,330	83,753
Derivative financial instruments	–	2,710	–	543	3,253
Segment liabilities	220,240,749	17,610,932	6,252,899	16,004,856	260,109,436
Net assets					32,227,427
Employee share-based compensation reserve of a subsidiary					(13,893)
Non-controlling interests					(15,573,059)
Net assets attributable to owners of the Company					16,640,475

Segment assets and segment liabilities represent the assets/liabilities recorded by each segment which is the measure reported to the management for the purposes of resources allocation and assessment of segment performance.

Segmental statement of financial position as at 31 December 2012 (audited)

	Life insurance	Property and casualty insurance	Reinsurance	Other businesses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Statutory deposits	1,479,924	683,121	70,347	373,014	2,606,406
Property and equipment	2,503,648	1,170,598	51,655	895,461	4,621,362
Investment properties	2,285,306	1,763,242	73,720	5,171,443	9,293,711
Prepaid lease payments	62,438	101,739	–	–	164,177
Goodwill	902,476	148,739	–	–	1,051,215
Intangible asset	–	264,509	–	–	264,509
Investment in associates	12,096	–	–	828,772	840,868
Interest in a joint venture	–	–	–	208	208
Construction in progress	–	115,703	–	–	115,703
Investments in debt and equity securities	144,621,987	9,323,128	4,916,981	2,889,924	161,752,020
Securities purchased under resale agreement	–	–	–	80,163	80,163
Derivative financial instruments	–	24	–	–	24
Insurance debtors	919,425	992,847	773,494	148,720	2,834,486
Reinsurers' share of insurance contract provisions	(14,612)	2,484,876	410,447	166,401	3,047,112
Policyholder account assets in respect of unit-linked products	3,141,049	–	–	–	3,141,049
Other debtors	7,349,228	503,098	197,781	443,022	8,493,129
Amounts due from group companies	3,293	2,717	–	2,984,970	2,990,980
Tax recoverable	–	25,737	–	–	25,737
Deferred tax assets	–	26,843	108,849	8,337	144,029
Pledged deposits at banks	–	56,199	223,159	15,997	295,355
Deposits at bank with original maturity more than three months	32,226,105	2,683,496	624,701	720,406	36,254,708
Cash and cash equivalents	10,987,392	2,867,025	1,507,474	4,480,256	19,842,147
Segment assets	206,479,755	23,213,641	8,958,608	19,207,094	257,859,098
Liabilities					
Life insurance contract liabilities	121,192,112	–	–	230,666	121,422,778
Unearned premium provisions	256,742	5,099,336	973,829	325,707	6,655,614
Provision for outstanding claims	109,850	6,411,092	4,559,241	244,240	11,324,423
Investment contract liabilities	25,418,923	–	–	562,803	25,981,726
Securities sold under repurchase agreements	34,936,714	345,315	–	144,786	35,426,815
Interest-bearing notes	8,817,881	863,289	–	3,653,566	13,334,736
Bank loans and other borrowings	–	–	–	4,329,965	4,329,965
Derivative financial instruments	–	33	–	6,495	6,528
Insurance creditors	2,154,835	1,778,683	149,929	519,505	4,602,952
Other creditors	2,019,925	1,245,755	73,783	1,260,511	4,599,974
Amounts due to group companies	21,585	7,464	191	7,347	36,587
Current taxation	–	167,979	148,865	12,291	329,135
Deferred tax liabilities	791,295	115,984	–	804,537	1,711,816
Insurance protection fund	24,108	33,006	–	5,366	62,480
Segment liabilities	195,743,970	16,067,936	5,905,838	12,107,785	229,825,529
Net assets					28,033,569
Employee share-based compensation reserve of a subsidiary					(23,186)
Non-controlling interests					(13,417,396)
Net assets attributable to owners of the Company					14,592,987

Segment assets and segment liabilities represent the assets/liabilities recorded by each segment which is the measure reported to the management for the purposes of resources allocation and assessment of segment performance.

Geographical distribution

More than 95% (30 June 2012: 95%) of the Group's segment revenue is derived from its operations in the PRC (other than Hong Kong and Macau).

The Group's information about its non-current assets by geographical location of the assets is detailed below:

	As at 30 June 2013					
	Hong Kong and Macau	**PRC (other than Hong Kong and Macau)**	**Rest of Asia**	**Europe**	**Rest of the world**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets (other than financial instruments, deferred tax assets, rights arising under insurance contracts and interest in associates)	2,971,864	13,050,101	196,090	83,716	2,518	16,304,289

	As at 31 December 2012					
	Hong Kong and Macau	**PRC (other than Hong Kong and Macau)**	**Rest of Asia**	**Europe**	**Rest of the world**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets (other than financial instruments, deferred tax assets, rights arising under insurance contracts and interest in associates)	2,993,091	12,287,950	146,617	80,301	2,720	15,510,679

Information about major customers

There were no customers for the six months ended 30 June 2013 and 2012 contributing over 10% of the total gross premiums written and policy fees of the Group.

4. Gross premiums written and policy fees

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

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Gross premiums written		
Property and casualty insurance contracts	7,816,505	5,669,188
Life insurance and investment contracts	40,254,571	23,656,929
Reinsurance contracts	2,217,039	2,127,632
Group life insurance contracts	827,225	553,481
Policy fees from investment contracts	49,991	77,723
	51,165,331	32,084,953

5. Net investment income

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net investment income *(note (a))*	4,855,403	3,843,672
Net realised and unrealised investment gains (losses) and impairment *(note (b))*	160,499	(803,478)
	5,015,902	3,040,194

Notes:

(a) Net investment income

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest income from debt securities	3,638,683	2,905,972
Dividend income from equity securities and investment funds	326,993	169,858
Bank and other interest income	1,121,681	774,593
Net rental income from investment properties	190,795	153,465
Net interest expense on securities sold/purchased under repurchase/resale agreements	(422,749)	(160,216)
	4,855,403	3,843,672

(b) Net realised and unrealised investment gains (losses) and impairment

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net realised gains (losses) on:		
– Available-for-sale investments	197,936	(355,824)
Net realised and unrealised (losses) gains on:		
– Held-for-trading	(6,397)	45,379
– Designated at fair value through profit or loss	(14,532)	29,257
– Derivative financial instruments	16,596	28,908
– Investment properties	245,625	332,642
Impairment loss recognised on:		
– Available-for-sale securities	(278,729)	(883,840)
	160,499	(803,478)

6. Other income/other losses

(a) Other income

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Income from provision of asset management services	55,422	29,649
Income from provision of property management services	13,247	16,875
Income from provision of insurance intermediary services	16,656	20,965
Income from provision of securities brokerage services	16,580	14,985
Income from provision of pension administration services	62,550	49,425
Interest income on secured loans to policy holders	75,920	48,992
Others	75,825	45,793
	316,200	226,684

(b) Other losses

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net (losses) gains on disposal of property, plant and equipment	(646)	3,975
Net impairment losses reversed in respect of property and equipment	–	11,638
Net exchange losses	(15,181)	(49,118)
Net impairment losses reversed (recognised) in respect of insurance debtors and other debtors	1,237	(3,225)
	(14,590)	(36,730)

7. Net policyholders' benefits and net commission expenses

(a) Net policyholders' benefits

For the six months ended 30 June 2013 (unaudited)

	Life insurance contracts	Property and casualty insurance contracts	Reinsurance contracts	Other businesses – group life contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Claims and claim adjustment expenses	375,798	3,504,215	913,957	302,789	5,096,759
Less: Reinsurers' and retrocessionaires' shares	(58,651)	(573,792)	(25,090)	(103,778)	(761,311)
	317,147	2,930,423	888,867	199,011	4,335,448
Surrenders	2,983,861	–	–	5,403	2,989,264
Annuity, dividends and maturity payments	2,175,494	–	–	20,989	2,196,483
Interest allocated to investment contracts	428,974	–	–	–	428,974
	5,905,476	2,930,423	888,867	225,403	9,950,169

For the six months ended 30 June 2012 (unaudited)

	Life insurance contracts	Property and casualty insurance contracts	Reinsurance contracts	Other businesses – group life contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Claims and claim adjustment expenses	387,450	2,353,416	1,286,241	221,277	4,248,384
Less: Reinsurers' and retrocessionaires' shares	(66,565)	(322,426)	(63,783)	(72,805)	(525,579)
	320,885	2,030,990	1,222,458	148,472	3,722,805
Surrenders	1,789,207	–	–	86	1,789,293
Annuity, dividends and maturity payments	1,441,647	–	–	12,217	1,453,864
Interest allocated to investment contracts	526,692	–	–	–	526,692
	4,078,431	2,030,990	1,222,458	160,775	7,492,654

(b) Net commission expenses

For the six months ended 30 June 2013 (unaudited)

	Life insurance contracts	Property and casualty insurance contracts	Reinsurance contracts	Other businesses – group life contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross commission expenses	3,268,216	785,517	600,377	66,038	4,720,148
Reinsurance commission income	(10,316)	(383,634)	(28,965)	(33,476)	(456,391)
Net commission expenses	3,257,900	401,883	571,412	32,562	4,263,757

For the six months ended 30 June 2012 (unaudited)

	Life insurance contracts	Property and casualty insurance contracts	Reinsurance contracts	Other businesses – group life contracts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gross commission expenses	1,871,305	594,087	520,726	42,544	3,028,662
Reinsurance commission income	(10,240)	(300,244)	(40,097)	(29,966)	(380,547)
Net commission expenses	1,861,065	293,843	480,629	12,578	2,648,115

8. Profit before taxation

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2013	**2012**
		HK$'000	*HK$'000*
		(unaudited)	(unaudited)
(a)	Finance costs:		
	Interest on interest-bearing notes	337,946	289,058
	Interest on bank loans and other borrowings	72,900	59,829
		410,846	348,887
(b)	Staff costs:		
	Salaries, wages and other benefits	3,102,003	2,748,166
	Employee share-based compensation benefits	–	2,694
	Contributions to defined contribution retirement plans	199,026	148,397
		3,301,029	2,899,257
(c)	Other items		
	Auditor's remuneration	7,205	6,865
	Depreciation of property and equipment	168,206	119,952
	Operating lease charges in respect of properties	287,784	221,053
	Share of associates' taxation charge	7,561	8,355
	Amortisation of prepaid lease payments	1,817	1,800
	Amortisation of intangible assets	102	625
	Business advertisement	394,428	149,172
	Business development expense	495,555	315,774
	Business conference expense	312,051	232,416
	Business travel expense	212,023	104,964
	Professional and advisory fee expense for group restructuring	393,279	131,368

9. Income tax charge

Income tax charge in the condensed consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax – Hong Kong Profits Tax		
Provision for the period	44,737	10,692
Current tax – outside Hong Kong		
Provision for the period	53,066	212,206
Overprovision in respect of prior years	(20,287)	(13,198)
Deferred tax charge	174,724	75,040
Income tax charge	252,240	284,740

The provision for Hong Kong Profits Tax is calculated at the standard tax rate of 16.5% (2012: 16.5%) on its assessable profits from reinsurance, property and casualty insurance, asset management and insurance intermediary business except for those from the business of reinsurance of offshore risks, which is calculated at 8.25% (2012: 8.25%), one-half of the standard tax rate for both periods.

Taxation outside Hong Kong for subsidiaries outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions. Under the Enterprise Income Tax Law of the PRC, the enterprise income tax rate for domestic companies in different provinces in the PRC is 25% (2012: 25%).

10. Statutory deposits

Certain subsidiaries of the Group have placed $4,461,931,000 (31 December 2012: $2,434,475,000) with banks as capital guarantee funds, pursuant to the relevant PRC insurance rules and regulations. The funds can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiaries cannot meet the statutory solvency requirements or go into liquidation.

In addition, a subsidiary of the Group has pledged a deposit of $115,612,000 (31 December 2012: $171,931,000) registered in favour of the Monetary Authority of Singapore pursuant to section 14A of the Singapore Insurance Act.

11. Property and equipment

During the period, certain own-use buildings had been leased out under operating leases. Accordingly, a carrying amount of land and buildings of $74,374,000 (30 June 2012: $300,952,000) has been transferred to investment properties at fair value of $112,510,000 (30 June 2012: $397,304,000), based on revaluation by an independent external property valuer. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

12. Investment properties

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

The time period in which the Group's total future minimum lease payments under non-cancellable operating leases are receivable is disclosed in Note 23.

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Investment properties under construction	1,595,758	1,459,527
Other investment properties	8,272,551	7,834,184
	9,868,309	9,293,711

The investment properties of the Group as at 30 June 2013 are fair valued by external valuer. The valuation for completed investment properties was arrived at by reference to market evidence of transaction prices for similar properties. The valuation for investment properties under construction is arrived on the basis of residual method, which reflects the expectations of the market participants of the value of investment properties when complete, after deductions for the costs required to complete and adjustments for profits. A revaluation surplus of HK$245,625,000 (30 June 2012: HK$332,642,000) has been recognised in the condensed consolidated statement of profit or loss during the period.

13. Investments in debt and equity securities

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Debt securities *(Note (i))*	139,391,743	123,210,372
Equity securities *(Note (ii))*	13,545,051	8,437,795
Investment funds *(Note (iii))*	9,021,046	9,492,212
Debt schemes *(Note (iv))*	25,360,955	20,611,641
	187,318,795	161,752,020

Notes:

(i) Debt securities

	Governments and central banks	Banks and other financial institutions	Corporate entities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2013 (Unaudited)				
Held-to-maturity:				
– Listed in Hong Kong	–	141,997	408,022	550,019
– Listed outside Hong Kong	88,194	1,341,001	4,569,802	5,998,997
– Unlisted	23,239,798	52,035,844	19,661,181	94,936,823
	23,327,992	53,518,842	24,639,005	101,485,839
Fair value of securities	23,995,247	53,239,275	24,574,546	101,809,068
Market value of listed securities	94,976	1,575,705	5,133,121	6,803,802
Available-for-sale:				
– Listed in Hong Kong	40,410	109,834	494,231	644,475
– Listed outside Hong Kong	3,243,137	1,900,731	9,946,547	15,090,415
– Unlisted	6,178,109	4,110,954	9,153,876	19,442,939
	9,461,656	6,121,519	19,594,654	35,177,829
Fair value of securities	9,461,656	6,121,519	19,594,654	35,177,829
Market value of listed securities	3,283,547	2,010,565	10,440,778	15,734,890
Held-for-trading:				
– Listed outside Hong Kong	57,151	141,988	75,828	274,967
– Unlisted	53,844	99,211	126,251	279,306
	110,995	241,199	202,079	554,273
Fair value of securities	110,995	241,199	202,079	554,273
Market value of listed securities	57,151	141,988	75,828	274,967
Designated at fair value through profit or loss:				
– Listed in Hong Kong	–	–	67,318	67,318
– Listed outside Hong Kong	–	–	209,083	209,083
– Unlisted	–	125,541	–	125,541
	–	125,541	276,401	401,942
Fair value of securities	–	125,541	276,401	401,942
Market value of listed securities	–	–	276,401	276,401
Loans and receivables:				
– Unlisted	1,117,791	654,069	–	1,771,860
Fair value of securities	1,198,014	641,638	–	1,839,652
Total debt securities	34,018,434	60,661,170	44,712,139	139,391,743

	Governments and central banks	Banks and other financial institutions	Corporate entities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2012 (Audited)				
Held-to-maturity:				
– Listed in Hong Kong	–	141,625	428,545	570,170
– Listed outside Hong Kong	107,151	1,390,058	3,079,047	4,576,256
– Unlisted	22,196,875	49,406,020	15,728,089	87,330,984
	22,304,026	50,937,703	19,235,681	92,477,410
Fair value of securities	22,547,998	50,081,417	19,006,861	91,636,276
Market value of listed securities	118,301	1,689,327	3,685,245	5,492,873
Available-for-sale:				
– Listed in Hong Kong	41,270	146,219	249,295	436,784
– Listed outside Hong Kong	3,549,555	1,865,982	7,045,553	12,461,090
– Unlisted	6,299,533	4,126,695	4,605,391	15,031,619
	9,890,358	6,138,896	11,900,239	27,929,493
Fair value of securities	9,890,358	6,138,896	11,900,239	27,929,493
Market value of listed securities	3,590,825	2,012,201	7,294,848	12,897,874
Held-for-trading:				
– Listed outside Hong Kong	63,146	150,171	103,066	316,383
– Unlisted	42,016	61,618	59,672	163,306
	105,162	211,789	162,738	479,689
Fair value of securities	105,162	211,789	162,738	479,689
Market value of listed securities	63,146	150,171	103,066	316,383
Designated at fair value through profit or loss:				
– Listed in Hong Kong	–	–	41,806	41,806
– Listed outside Hong Kong	–	203,446	–	203,446
– Unlisted	–	554,972	–	554,972
Fair value of securities	–	758,418	41,806	800,224
Market value of listed securities	–	203,446	41,806	245,252
Loans and receivables:				
– Unlisted	1,153,575	369,981	–	1,523,556
Fair value of securities	1,244,752	369,981	–	1,614,733
Total debt securities	33,453,121	58,416,787	31,340,464	123,210,372

The held-to-maturity debt security include an amount of HK$766,039,000 (31 December 2012: HK$699,894,000) which is maturing within one year. None of the security are past due or impaired.

The debts securities classified as loans and receivables mature from 2013 to 2018 (31 December 2012: 2013 to 2016) and bear fixed interest ranging from 3% to 6% (31 December 2012: 4% to 6%) per annum.

(ii) Equity securities

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Available-for-sale:		
– Listed in Hong Kong	986,730	576,544
– Listed outside Hong Kong	5,183,519	5,013,808
– Unlisted, at cost	5,106,285	2,711,893
– Unlisted, at fair value	2,079,037	6,785
	13,355,571	8,309,030
Fair value of listed securities	6,170,249	5,590,352
Market value of listed securities	6,170,249	5,590,352
Held-for-trading:		
– Listed in Hong Kong	86,247	76,165
– Listed outside Hong Kong	103,233	52,600
	189,480	128,765
Fair value of securities	189,480	128,765
Market value of listed securities	189,480	128,765
Total equity securities	13,545,051	8,437,795

As at the end of the reporting period, the available-for-sale equity securities include unlisted securities measured at cost of HK$5,106,285,000 (2012: HK$2,711,893,000), as the management considers that their fair value cannot be measured reliably. These unlisted equity securities are issued by private entities incorporated in the PRC. During the year, one of the available-for-sale equity securities, measured at cost of HK$113,885,000 as at 31 December 2012, is measured at fair value of HK$2,071,577,000 as at 30 June 2013 as sufficient information has became available to the Group from the investee to enable the Group to estimate the fair value of such investment. Further details are set out in Note 22.

(iii) Investment funds

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Available-for-sale:		
– Listed in Hong Kong	180,670	–
– Listed outside Hong Kong	1,663,856	3,411,856
– Unlisted	6,973,129	5,053,386
	8,817,655	8,465,242
Fair value of investment funds	8,817,655	8,465,242
Market value of investment funds	1,844,526	3,411,856
Held-for-trading:		
– Listed outside Hong Kong	40,385	45,814
– Unlisted	163,006	981,156
	203,391	1,026,970
Fair value of investment funds	203,391	1,026,970
Market value of investment funds	45,385	45,814
Total investment funds	9,021,046	9,492,212

The Group invests in open-ended or close-ended investment funds with underlying assets of equity, bond or composite funds.

(iv) Debt schemes

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Loans and receivables:		
– Unlisted	25,360,955	20,611,641
Fair value of securities	24,138,178	19,480,985

The debt schemes relate to finance for infrastructure projects in the PRC. The debt schemes mature from 2015 to 2022 (31 December 2012: 2015 to 2021) and bear interest ranging from 5% to 8% (31 December 2012: 5% to 7%) per annum.

Analysed for reporting purpose as:

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Held-to-maturity		
– Current	766,039	699,894
– Non-current	100,719,800	91,777,516
Available-for-sale		
– Current	2,258,019	1,991,095
– Non-current	55,093,036	42,712,670
Held-for trading		
– Current	947,144	1,635,424
– Non-current	–	–
Designated at fair value through profit or loss		
– Current	401,942	800,224
– Non-current	–	–
Loans and receivables		
– Current	1,048,417	647,467
– Non-current	26,084,398	21,487,730
	187,318,795	161,752,020

14. Insurance debtors

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Amounts due from insurance customers	3,696,514	2,773,247
Less: Allowance for impaired debts	(121,263)	(123,195)
	3,575,251	2,650,052
Deposits retained by cedants	120,247	184,434
	3,695,498	2,834,486

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

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Uninvoiced	891,884	595,150
Within 3 months	2,308,702	1,932,623
More than 3 months but less than 12 months	351,919	118,079
More than 12 months	22,746	4,200
	3,575,251	2,650,052

15. Other debtors

	30 June 2013 HK$'000 (unaudited)	31 December 2012 HK$'000 (audited)
Interest receivable from interest-bearing financial assets	3,316,067	3,200,248
Deposits for the purchase of property	170,467	341,035
Tax certificate paid to Hong Kong Inland Revenue Department	65,692	54,957
Business tax prepaid	1,006,457	435,055
Rental and utility deposits	87,247	79,534
Other debtors, deposits and prepayments	1,877,375	1,987,783
Less: Allowance for impaired debts	(171,560)	(173,198)
	6,351,745	5,925,414
Loans receivable		
Secured loans to policyholders	7,073,736	2,567,715
	13,425,481	8,493,129

As at 30 June 2013, other debtors include an amount of HK$20,103,000 (31 December 2012: HK$20,000,000) that was pledged to a financial institution for providing security in connection with a reinsurance arrangement.

16. Cash and cash equivalents

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Deposits with banks and other financial institutions with original maturity less than three months	4,288,077	10,937,756
Cash at bank and in hand	12,742,219	8,714,290
	17,030,296	19,652,046

17. Securities purchased under resale agreements/securities sold under repurchase agreements

The Group entered into transactions in which it transferred financial assets directly to third parties. As the Group has not transferred the significant risks and rewards relating to these securities, it continues to recognise the full carrying amount and has recognised the cash received on the transfer as securities sold under repurchase agreements. The following were the Group's held-to-maturity securities and available-for-sale securities as at 30 June 2013 that were transferred to an entity with terms to repurchase these securities at the agreed dates and prices. These securities are either measured at amortised cost or carried at fair value respectively in the Group's condensed consolidated statement of financial position.

	30 June 2013		
	Held-to-maturity securities	Available-for-sale securities	Total
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of transferred assets	25,149,881	8,936,939	34,086,820
Carrying amount of associated liabilities – securities sold under repurchase agreements	23,573,058	6,004,155	29,577,213
Net position	1,576,823	2,932,784	4,509,607

	31 December 2012		
	Held-to-maturity securities	Available-for-sale securities	Total
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of transferred assets	31,717,099	7,752,037	39,469,136
Carrying amount of associated liabilities – securities sold under repurchase agreements	30,397,136	5,029,679	35,426,815
Net position	1,319,963	2,722,358	4,042,321

Conversely, the Group also enters into short-term investment arrangements secured by the securities purchased. The securities purchased are not recognized on the condensed consolidated statement of financial position.

All of the securities purchased under resale agreements and securities sold under repurchase agreements are denominated in RMB. The carrying amount of the securities purchased under resale agreements and securities sold under repurchase agreements approximate to their fair value.

18. Bank loans and other borrowings

(a) During the current interim period, the Group drew down a bank loan amounting to US$250 million. The loan bears interest at LIBOR rate for the relevant interest reset period, which can be one-month, two-month, three-month and six-month as mutually agreed between the Company and the lender, plus 2.4% and the principal amount of the loan is repayable in five years. The proceeds were used for financing the general working capital requirements of the Group.

(b) During the current interim period, the Group obtained new loan facilities of HK$800 million and US$150 million (HK$1,170 million equivalent) from financial institutions, of which HK$500 million and HK$680 million, respectively were drawn. The loans bear interest at HIBOR plus 2.0875% and HIBOR plus 1.7% to 1.9%. The applicable HIBOR rate is the HIBOR rate for the relevant interest reset period, which can be one-month, two-month, three-month and six-month as mutually agreed between the Company and the lender. The loans are repayable within five years and three years, respectively. The proceeds were used for financing the general working capital requirements of the Group.

19. Insurance creditors

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Amounts due to insurance customers, reinsurers and insurance intermediaries	2,296,345	1,798,513
Deposits retained from reinsurers/retrocessionaries	184,424	307,906
Prepaid premiums received and surrenders payable	2,435,671	2,431,607
Collateral deposits held	79,555	64,926
	4,995,995	4,602,952

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

The following is an aging analysis of the amount due to insurance customers, reinsurers and insurance intermediaries:

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Current	2,151,889	1,638,861
More than 3 months but less than 12 months	115,357	125,941
More than 12 months	29,099	33,711
	2,296,345	1,798,513

20. Share capital

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$100 each		
Authorised		
At 31 December 2012 and 30 June 2013	500,000	50,000,000
Issued and fully paid		
At 31 December 2012 and 30 June 2013	35,945	3,594,500

21. Reserves

	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserves	Retained profits	Other reserve	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2013	851,937	1,063,674	214,986	244,016	8,529,369	94,505	10,998,487	23,186	13,417,396	24,439,069
Profit for the year	–	–	–	–	413,819	–	413,819	–	412,351	826,170
Other comprehensive income	–	73,134	1,530,030	14,212	–	–	1,617,376	–	(86,604)	1,530,772
Revaluation gain arising from reclassification of owner-occupied properties into investment properties	–	–	–	14,212	–	–	14,212	–	19,339	33,551
Exchange differences on translation of the financial statements of subsidiaries.	–	73,134	–	–	–	–	73,134	–	186,212	259,346
Share of other comprehensive expenses of associates	–	–	–	–	–	–	–	–	–	–
Available-for-sale securities	–	–	1,530,030	–	–	–	1,530,030	–	(292,155)	1,237,875
– net change in fair value	–	–	1,693,219	–	–	–	1,693,219	–	(422,585)	1,270,634
– net deferred tax	–	–	(175,476)	–	–	–	(175,476)	–	61,924	(113,552)
– transferred to profit or loss. . . .	–	–	12,287	–	–	–	12,287	–	68,506	80,793
Total comprehensive income.	–	73,134	1,530,030	14,212	413,819	–	2,031,195	–	325,747	2,356,942
Equity settled share-based transactions	–	–	–	–	2,499	6,794	9,293	(9,293)	–	–
Capital contribution made to subsidiaries.	–	–	–	–	–	–	–	–	1,821,223	1,821,223
Deemed disposal of partial interest in a subsidiary	7,000	–	–	–	–	–	7,000	–	8,693	15,693
At 30 June 2013	858,937	1,136,808	1,745,016	258,228	8,945,687	101,299	13,045,975	13,893	15,573,059	28,632,927

	Capital reserve	Exchange reserve	Fair value reserve	Revaluation reserves	Retained profits	Other reserve	Total	Employee share-based compensation reserve of a subsidiary	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	852,780	1,018,751	(472,602)	213,414	7,569,599	94,324	9,276,266	22,890	10,716,111	20,015,267
Profit for the year	–	–	–	–	509,452	–	509,452	–	679,948	1,189,400
Other comprehensive income	–	(46,868)	417,563	19,375	–	–	390,070	–	1,059,658	1,449,728
Revaluation gain arising from reclassification of owner-occupied properties into investment properties	–	–	–	19,375	–	–	19,375	–	65,447	84,822
Exchange differences on translation of the financial statements of subsidiaries.	–	(46,868)	–	–	–	–	(46,868)	–	(39,084)	(85,952)
Available-for-sale securities	–	–	417,563	–	–	–	417,563	–	1,033,295	1,450,858
– net change in fair value	–	–	227,038	–	–	–	227,038	–	433,174	660,212
– net deferred tax	–	–	(124,901)	–	–	–	(124,901)	–	(324,015)	(448,916)
– transferred to profit or loss. . . .	–	–	315,426	–	–	–	315,426	–	924,136	1,239,562
Total comprehensive income.	–	(46,868)	417,563	19,375	509,452	–	899,522	–	1,739,606	2,639,128
Equity settled share-based transactions	(620)	–	–	–	102	–	(518)	1,061	1,019	1,562
Capital contribution made to subsidiaries.	–	–	–	–	–	–	–	–	142,746	142,746
At 30 June 2012	852,160	971,883	(55,039)	232,789	8,079,153	94,324	10,175,270	23,951	12,599,482	22,798,703

22. Fair values of financial instruments

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

- The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;

- The fair values of derivative instruments are estimated using discounted cash flow analysis and the applicable yield curve for the duration of the non-optional derivative;

- The fair values of unlisted investment funds and unlisted debt securities included in financial assets at fair value through profit or loss and available-for-sale securities are established by reference to the prices quoted by respective fund administrators or by using valuations techniques including the use of recent arm's length transactions, and

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values, except for debt securities classified as held-to-maturity and loans and receivables and interest-bearing notes.

The following table shows an analysis of investments in debt and equity securities recorded at fair value by level of the fair value hierarchy, which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the debts instruments traded in the inter-bank market. The sources of input parameters like yield curve or counterparty credit risk are China Bond and Bloomberg.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

	30 June 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Held-for-trading investments	508,872	438,272	–	947,144
Securities designated at fair value through profit or loss	401,942	–	–	401,942
Available-for-sale financial assets	30,217,735	19,955,458	2,071,577	52,244,770
Total	31,128,549	20,393,730	2,071,577	53,593,856
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	3,253	–	3,253

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss				
Held-for-trading investments	1,409,292	226,132	–	1,635,424
Securities designated at fair value through profit or loss	245,252	554,972	–	800,224
Derivative financial instruments	–	24	–	24
Available-for-sale financial assets	25,408,693	16,583,179	–	41,991,872
Total	27,063,237	17,364,307	–	44,427,544
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	–	6,528	–	6,528

The Group uses valuation techniques to determine the fair value of investment in debt and equity securities when it is unable to obtain the open market quotation in active markets.

The valuation techniques used by the Group include the discounted cash flow model for debt securities and certain derivatives (i.e. interest rate swap, forward and etc.) and Black Scholes model for options. The main parameters used in discounted cash flow model include bond prices, interest rates, foreign exchange rates, prepayment rates, counterparty credit spreads and those used in Black Scholes model include interest rates, foreign exchange rates, volatilities, counterparty credit spreads and others. If the parameters used in valuation techniques for financial instruments (including debt securities and derivatives) held by the Group are all observable and obtainable from active open markets, the instruments are classified as level 2.

For the six months ended 30 June 2013 and year ended 31 December 2012, there were no transfers between level 1 and level 2 of the fair value hierarchy.

Unlisted equity securities classified as available-for-sale of fair value amounting to HK$2,071,577,000 is classified as level 3 of the fair value hierarchy. Details of valuation techniques, key inputs and basis are set out below:

Particulars of investments	Valuation technique(s) and key input(s)	Significant unobservable input(s) and basis	Relationship of unobservable inputs to fair value
15 per cent equity investment in 上海陸家嘴金融貿易區聯合發展有限公司 ("Lujiazui Financial") engaged in properties development	Asset based approach: Office Buildings – Market Approach Shopping Malls – Income Approach Construction in Progress of Shopping Malls – Residual Method Approach The key inputs are: – price of properties from market transactions – rental yield – occupancy rate – expected useful life – discount for lack of control	Rental yield rate comprises 1) monthly rent, determined from interviews conducted with tenants of nearby properties on current rent; 2) unit price estimated based on market research report on sale price of similar properties in Shanghai. Discount for lack of control determined with reference to general market practice and research conducted to estimate discount to fair value as a result of a lack of control by non-controlling shareholders. Occupancy rate based on market research on average vacancy rate for shopping malls in areas close to Lujiazui. Rental period estimated with reference to the land use right, the duration of which is normally 30-50 years in Shanghai.	The higher the rental yield, the lower the fair value. The higher the discount for lack of control, the lower the fair value The higher the occupancy rate, the higher the fair value The longer the expected useful life, the higher the fair value

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity security
	HK$'000
Available-for-sale financial assets	
At 1 January 2013	–
Transfers in	113,885
Total gains in other comprehensive income	1,957,692
At 30 June 2013	2,071,577

Included in other comprehensive income is an amount of HK$1,957,692,000 gain related to unlisted equity securities classified as available-for-sale investments and measured at fair value at 30 June 2013 (at cost: 31 December 2012) as detailed in note 13(ii). The gain is reported as net change in fair value reserve.

Fair value measurements and valuation process

The Group has appointed a qualified external valuer to determine the fair value of the unlisted equity security classified as Level 3 to assist the directors of the Company to determine the appropriate valuation techniques and inputs for the measurement. The valuation techniques used by the external valuer are the asset based approach including market approach, for office buildings, income approach for shopping malls and residual method approach for construction in progress. The key inputs are price of properties from market transactions, rental yield, occupancy rate, expected useful life and discount for lack of control. The board of directors considered the appropriateness of the valuer's valuation approach based on facts and circumstances of the investment and market condition and concluded that appropriate valuation methodology and unobservable inputs have been used in that valuation.

23. Operating leases

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2013	**31 December 2012**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 1 year	489,479	376,559
After 1 year but within 5 years	596,773	461,958
After 5 years	9,414	13,410
	1,095,666	851,927

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2013	**31 December 2012**
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 1 year	373,271	377,820
After 1 year but within 5 years	406,220	447,322
After 5 years	27,270	30,505
	806,761	855,647

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

24. Capital commitments

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Capital expenditure for property and equipment contracted for but not provided in the condensed consolidated financial statements	851,660	985,957
Capital expenditure for property and equipment authorised but not contracted for	2,430,176	2,304,242

25. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these condensed consolidated financial statements, the Group entered into the following material related party transactions:

		Six months ended 30 June	
		2013	2012
	Notes	*HK$'000*	*HK$'000*
Interest income from ultimate holding company		–	16,172
Back office service	*(i)*	114,651	118,102
Internal audit service	*(ii)*	26,000	24,377

Notes:

(i) A fellow subsidiary of the Group provides back office services to the Group and receives services fee from the Group.

(ii) A fellow subsidiary of the Group provides internal audit services to the Group and receives service fee from the Group.

Apart from the above, the Group has entered into the following nonrecurring transactions with related parties:

(a) On 27 May 2013, the Group has entered into a framework agreement where the Company and China Taiping Insurance Group Ltd. ("TPG"), the ultimate holding company of the Group, as vendors and China Taiping Insurance Holdings Company Limited ("CTIH"), a subsidiary of the Group, as purchaser, pursuant to which the Company and TPG conditionally agreed to sell to CTIH certain target assets and target interests at the aggregate consideration of RMB10,581,367,500, which shall be satisfied by the issue of consideration shares at the issue price of $15.39 per share. The details of the transaction were set out in the announcement of CTIH dated 27 May 2013 and the circular of CTIH dated 31 May 2013. The disposal is still subject to the fulfilment of different precedent conditions and, accordingly is not considered to be complete as of the date of this interim financial report.

(b) On 7 March 2013, relevant approvals for the increase of the capital of Taiping Life Insurance Company Limited ("TPL"), a subsidiary of CTIH, by RMB2,500 million to RMB6,230 million have been obtained. CTIH, TPG and another non-controlling interest have contributed such additional capital in cash in the amount of RMB1,251.25 million, RMB626.25 million and RMB622.50 million, respectively, in proportion to their respective equity interests in TPL. The details of the transaction were set out in the announcement of CTIH dated 31 December 2012 and completed in March 2013.

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

26. Insurance and financial risk management

(a) Underwriting strategy

Life insurance business

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

Property and casualty insurance business

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

Reinsurance business

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

(b) Reinsurance strategy

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

(c) Asset and liability matching

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

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

- actively seeking to acquire longer dated fixed rate debt investments with an acceptable level of yield;

- upon the maturity dates of fixed rate debt investments, rolling over the proceeds to longer dated fixed rate debt investments;

- disposing of some of the shorter dated fixed rate debt investments, particularly those with lower yields, and rolling over the proceeds to longer dated fixed rate debt investments; and

- investing in equities for the long term and in property holding company.

(d) Financial risks

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

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

Market risk

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

Interest rate risk

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

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

Equity price risk

The Group has a portfolio of marketable equity securities, which is carried at fair value and is exposed to price risk. As the financial risks of unit-linked contracts are fully undertaken by the policyholders, the assets related to unit-linked products are not considered as part of equity price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices.

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

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

Foreign exchange risk

In respect of the life insurance business and property and casualty insurance business in the PRC, premiums are received in Renminbi and the insurance regulation in the PRC requires insurers to hold RMB assets. Therefore the foreign exchange risk in respect of RMB for the Group's PRC operations is not significant.

In respect of the property and casualty insurance business operating in Singapore, Macau, the United Kingdom and New Zealand, premiums are mainly received in the relevant domestic currencies. In respect of the property and casualty insurance business in Hong Kong, almost all the premiums are received in HKD and USD. The currency position of assets and liabilities is monitored by the Group periodically.

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

Credit risk

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

The Group is exposed to credit risks primarily associated with bank deposits, money market funds, insurance debtors, investments in debt securities, reinsurance arrangements with reinsurers, amounts due from group companies and other debtors etc.

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

The credit risk on bank balances is limited because the relevant banks are with high credit ratings.

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

The credit risk associated with insurance debtors and other debtors will not cause a material impact on the Group's consolidated financial statements after taking into consideration their maturity term of not more than one year as at 30 June 2013. For the credit risk associated with amounts due from group companies, mainly due from the immediate holding company, management assesses the overall profitability and net asset position of the TPG Group to assess if there is any indication for impairment.

Liquidity risk

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

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

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

(e) Reserve adequacy

The Group exercises great care and effort in setting up the reserves for its reinsurance and property and casualty insurance businesses. The reserves are estimated by the Group, using actuarial methods such as loss development methods and/or the Bornhuetter-Ferguson methods. The adequacy of reserves is reviewed regularly.

The computation of the Group's reserves for its life insurance business is based on realistic assumptions of mortality and morbidity rates, returns on investment, persistency rates and policy maintenance expenses after reasonable and prudent adjustments for adverse deviation to ensure adequacy of reserves on a going concern basis.

In assessing the liability adequacy for its life insurance business, the process employed to determine the assumptions that have the greatest effect on the measurement is described below:

1. The qualified professional actuaries of the Group are responsible for setting the assumptions.

2. The assumptions are set based on best estimates in accordance with actual operating performance of the business.

3. Certain assumptions are topped up with additional margin based on professional actuarial estimates to derive a risk margin in the liability of insurance contracts.

4. Scenario testing by applying different assumptions is performed.

5. The qualified professional actuaries of the Group make recommendations to the board and management of the relevant subsidiaries based on the results of the scenario testing.

6. The board and management of the relevant subsidiaries are responsible for making final decisions in the determination of the assumptions.

27. Event after the reporting period

(a) On 18 July 2013, TPL, Taiping General Insurance Company Limited ("TPI"), a subsidiary of CTIH, and 深圳市太平投資有限公司 (Shenzhen Taiping Investment Company Limited) ("SZTPI"), a wholly-owned subsidiary of TPG, entered into a joint bidding agreement for the purpose of joint bidding of a piece of land situated in Suzhou, PRC, and on the same day, TPL, TPI and SZTPI also entered into the Framework Agreement for purpose of formation of a project company to own the land. The details of the transactions were set out in the announcement of CTIH dated 18 July 2013. As of the date of this interim financial report, the land bidding was successful and a project company, a subsidiary under CTIH, has been established.

(b) On 18 July 2013, TPL entered into the share transfer agreement with Exchange Realty SRL pursuant to which Exchange Realty SRL agreed to sell and TPL agreed to acquire the entire equity interest in the 京匯通置業有限公司 (Jinghuitong Real Estate Company Limited) (unofficial English translation) (the "Target Company")) at a consideration of RMB1,598 million (subject to downward adjustment). The Target Company is the sole owner of The Exchange Beijing, which is a grade A office building situated in Chaoyang District, Beijing. The details of the transaction were set out in the announcement of CTIH dated 18 July 2013. The transaction is not completed as of the date of this interim financial report.

(c) On 8 August 2013, TPL has entered into the property acquisition agreement with the Finance Street Holdings Co., Ltd. (the "Vendor"), pursuant to which the Vendor agreed to sell and TPL agreed to acquire a commercial housing with approximately 75,000 square meters gross floor area (subject to adjustment) in the west wing of No.4 office building to be constructed on Site B of Daji Redevelopment Zone, Southeast corner of Caishikou, Xicheng District, Bejing, PRC at a consideration of RMB3,585 million (subject to amendment). The details of the transaction were set out in the announcement of CTIH dated 8 August 2013. The transaction is not completed as of the date of this interim financial report.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

TO THE DIRECTORS OF
CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Taiping Insurance Group (HK) Company Limited (the "Company" or "TPG(HK)") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the pro forma consolidated statement of financial position as of 31 December 2012, the pro forma consolidated statement of profit or loss for the year ended 31 December 2012 and related notes to the unaudited pro forma financial information. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in the notes to the unaudited pro forma financial information.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the contemplated disposal of certain entities, assets and liabilities by the Company and China Taiping Insurance Group Co., the Company's immediate holding company, to China Taiping Insurance Holdings Company Limited, the Company's non-wholly owned subsidiary listed in Hong Kong, on the Group's financial position as of 31 December 2012 and the Group's financial performance for the year ended 31 December 2012 as if the transaction had taken place on 31 December 2012 and 1 January 2012, respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the Directors from the Group's condensed consolidated financial statements for the year ended 31 December 2012, on which an audit report has been issued by us.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors of the Company are responsible for compiling the unaudited pro forma financial information on the basis of compilation set out in notes to the unaudited pro forma financial information.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the unaudited pro forma financial information on the basis of compilation set out in notes to the unaudited pro forma financial information.

Reporting Accountants' Responsibilities - continued

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of the unaudited pro forma financial information is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2012 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the unaudited pro forma financial information has been compiled, in all material respects, on the basis of the compilation set out in the notes to the unaudited pro forma financial information.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
4 October 2013

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pursuant to the Framework Agreement entered into on 27 May 2013 among China Taiping Insurance Group (HK) Company Limited ("TPG(HK)"), China Taiping Insurance Group Co. ("TPG"), the immediate holding company of TPG(HK), and China Taiping Insurance Holdings Company Limited ("CTIH"), the non-wholly owned subsidiary of TPG(HK) listed in Hong Kong, TPG and TPG(HK) have contractually agreed to dispose and CTIH and its subsidiaries have contractually agreed to acquire certain entities, assets and liabilities as stated in the Framework Agreement (collectively referred to as the "Transactions").

The following unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") has been prepared in accordance with the notes to the Unaudited Pro Forma Financial Information for the purpose of illustrating the effect of the Transactions to the financial position and financial performance of the enlarged group (the "Enlarged Group") as if the Transactions had been completed on 31 December 2012 and 1 January 2012, respectively.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on the consolidated financial statements of TPG(HK) and its subsidiaries (hereinafter collectively referred to as the "Group") as of and for the year ended 31 December 2012 as extracted from the 2012 consolidated financial statements of the Company after making pro forma adjustments on the basis of compilation set out in notes to the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and is based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to describe financial position or financial performance of the Enlarged Group that would have been attained had the Transactions been completed at the date stated, nor does it purport to predict the financial position of the Enlarged Group at 31 December 2012 or at any future dates or the financial performance of the Enlarged Group for the year ended 31 December 2012 or any further periods.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP

	The Group	Pro forma adjustment 1	Pro forma adjustment 2	Pro forma adjustment 3	Pro forma adjustment 4	Pro forma adjustment 5	Pro forma adjustment 6	Pro forma adjustment 7	Total pro forma adjustments	The Enlarged Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue - Gross premiums written and policy fees	61,163,174	89,005	-	-	-	-	-	-	89,005	61,252,179
Less: Premiums ceded to reinsurers and retrocessionaires	(2,663,035)	(67,124)	-	-	-	-	-	-	(67,124)	(2,730,159)
Net premiums written and policy fees	58,500,139	21,881	-	-	-	-	-	-	21,881	58,522,020
Change in unearned premium provisions, net of reinsurance	(1,121,471)	(909)	-	-	-	-	-	-	(909)	(1,122,380)
Net earned premiums and policy fees	57,378,668	20,972	-	-	-	-	-	-	20,972	57,399,640
Net investment income	8,717,697	4,270	(24,331)	7,664	-	20,540	-	-	8,143	8,725,840
Net realised and unrealised investment gains and impairment	(2,001,708)	2,621	-	56,680	10,651	-	-	-	69,952	(1,931,756)
Other income and gains	707,413	318,391	(316,259)	-	-	-	-	-	2,132	709,545
	64,802,070	346,254	(340,590)	64,344	10,651	20,540	-	-	101,199	64,903,269
Benefits, losses and expenses										
Net policyholders' benefits	(15,925,090)	(7,863)	-	-	-	-	-	-	(7,863)	(15,932,953)
Net commission expenses	(5,217,461)	3,615	-	-	-	-	-	-	3,615	(5,213,846)
Change in life insurance contract liabilities, net of reinsurance	(30,274,336)	-	-	-	-	-	-	-	-	(30,274,336)
Administrative and other expenses	(10,981,350)	(332,666)	340,590	(97)	(4,106)	-	(7,823)	-	(4,102)	(10,985,452)
Total benefits, losses and expenses	(62,398,237)	(336,914)	340,590	(97)	(4,106)	-	(7,823)	-	(8,350)	(62,406,587)
Profit from operations	2,403,833	9,340	-	64,247	6,545	20,540	(7,823)	-	92,849	2,496,682
Share of results of associates	93,055	-	-	-	-	-	-	-	-	93,055
Share of result of a joint venture	9	-	-	-	-	-	-	-	-	9
Finance costs	(705,614)	-	-	-	-	(70,684)	-	-	(70,684)	(776,298)
Profit before taxation	1,791,283	9,340	-	64,247	6,545	(50,144)	(7,823)	-	22,165	1,813,448
Income tax expense	86,265	(3,709)	-	(2,338)	(1,636)	-	-	-	(7,683)	78,582
Profit after taxation	1,877,548	5,631	-	61,909	4,909	(50,144)	(7,823)	-	14,482	1,892,030
Profit after taxation attributable to:										
Owners of the Company	957,846	2,475	-	61,909	2,542	(50,144)	(5,395)	139,610	150,997	1,108,843
Non-controlling interests	919,702	3,156	-	-	2,367	-	(2,428)	(139,610)	(136,515)	783,187
	1,877,548	5,631	-	61,909	4,909	(50,144)	(7,823)	-	14,482	1,892,030

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group HK$'000	Pro forma adjustment 8 HK$'000	Pro forma adjustment 9 HK$'000	Pro forma adjustment 10 HK$'000	Pro forma adjustment 11 HK$'000	Pro forma adjustment 12 HK$'000	Pro forma adjustment 13 HK$'000	Pro forma adjustment 14 HK$'000	Pro forma adjustment 15 HK$'000	Pro forma adjustment 16 HK$'000	Pro forma adjustment 17 HK$'000	Total Pro forma adjustments HK$'000	The Enlarged Group HK$'000
ASSETS													
Statutory deposits	2,606,406	-	2,849	-	-	-	-	-	-	-	-	2,849	2,609,255
Property and equipment	4,621,362	-	22,038	-	347	-	202,798	-	-	-	-	225,183	4,846,545
Investment properties	9,293,711	-	-	-	222,276	-	(328,524)	-	-	-	-	(106,248)	9,187,463
Prepaid lease payments	164,177	-	-	-	-	-	-	-	-	-	-	-	164,177
Goodwill	1,051,215	-	-	-	-	-	-	-	-	-	-	-	1,051,215
Intangible assets	264,509	-	-	-	-	-	-	-	-	-	-	-	264,509
Interests in associates	840,868	-	-	-	-	-	-	-	-	-	-	-	840,868
Interest in a joint venture	208	-	-	-	-	-	-	-	-	-	-	-	208
Construction in progress	115,703	-	-	-	-	-	-	-	-	-	-	-	115,703
Investments in debt and equity securities	161,752,020	-	12,683	-	-	-	-	-	-	-	-	12,683	161,764,703
Securities purchased under resale agreements	80,163	-	-	-	-	-	-	-	-	-	-	-	80,163
Insurance debtors	2,834,486	-	25,952	-	-	-	-	-	-	-	-	25,952	2,860,438
Reinsurers' share of insurance contract provisions	3,047,112	-	120,642	-	-	-	-	-	-	-	-	120,642	3,167,754
Policyholder account assets in respect of unit-linked products	3,141,049	-	-	-	-	-	-	-	-	-	-	-	3,141,049
Other debtors	8,493,129	-	3,394	-	250	-	-	13,220	-	-	-	16,864	8,509,993
Amounts due from group companies	2,990,980	-	36,784	-	4,897	-	-	(49,365)	1,127,061	-	-	1,119,377	4,110,357
Tax recoverable	25,737	-	-	-	-	-	-	-	-	-	-	-	25,737
Deferred tax assets	144,029	-	1,892	-	-	-	-	-	-	-	-	1,892	145,921
Pledged deposits at banks	295,355	-	-	-	-	-	-	-	-	-	-	-	295,355
Deposits at banks with original maturity more than 3 months	36,444,809	-	87,387	-	-	-	-	-	-	-	-	87,387	36,532,196
Cash and cash equivalents	19,652,046	1,996,010	18,401	-	-	-	-	-	1,690,439	(7,823)	-	3,697,027	23,349,073
Derivative financial instruments	24	-	-	-	-	-	-	-	-	-	-	-	24
TOTAL ASSETS	257,859,098	1,996,010	332,022	-	227,770	-	(125,726)	(36,145)	2,817,500	(7,823)	-	5,203,608	263,062,706
LIABILITIES													
Life insurance contract liabilities	121,422,778	-	-	-	-	-	-	-	-	-	-	-	121,422,778
Unearned premium provisions	6,655,614	-	51,419	-	-	-	-	-	-	-	-	51,419	6,707,033
Provision for outstanding claims	11,324,423	-	89,318	-	-	-	-	-	-	-	-	89,318	11,413,741
Investment contract liabilities	25,981,726	-	-	-	-	-	-	-	-	-	-	-	25,981,726
Securities sold under repurchase agreements	35,426,815	-	-	-	-	-	-	-	-	-	-	-	35,426,815
Interest-bearing notes	13,334,736	-	-	-	-	-	-	-	-	-	-	-	13,334,736
Bank loans and other borrowings	4,329,965	-	-	-	-	-	-	-	2,817,500	-	-	2,817,500	7,147,465
Insurance creditors	4,602,952	-	26,729	-	-	-	-	-	-	-	-	26,729	4,629,681
Other creditors	4,599,974	-	62,409	-	-	-	-	-	-	-	-	62,409	4,662,383
Amounts due to group companies	36,587	11,144,447	136,895	(82,822)	223,149	(11,219,310)	-	(168,435)	-	-	-	33,924	70,511
Current taxation	329,135	-	2,783	-	-	-	-	-	-	-	-	2,783	331,918
Deferred tax liabilities	1,711,816	-	-	-	-	-	(31,432)	-	-	-	-	(31,432)	1,680,384
Insurance protection fund	62,480	-	-	-	-	-	-	-	-	-	-	-	62,480
Derivative financial instruments	6,528	-	-	-	-	-	-	-	-	-	-	-	6,528
TOTAL LIABILITIES	229,825,529	11,144,447	369,553	(82,822)	223,149	(11,219,310)	(31,432)	(168,435)	2,817,500	-	-	3,052,650	232,878,179
NET ASSETS	28,033,569	(9,148,437)	(37,531)	82,822	4,621	11,219,310	(94,294)	132,290	-	(7,823)	-	2,150,958	30,184,527
CAPITAL AND RESERVES													
Share capital and share premium	3,594,500	-	54,719	(54,719)	-	11,219,310	-	-	-	-	-	11,219,310	14,813,810
Other reserves	10,998,487	(5,996,743)	(127,696)	137,541	4,621	-	(48,837)	132,290	-	(5,395)	(41,384)	(5,945,603)	5,052,884
Equity attributable to owners of the Company	14,592,987	(5,996,743)	(72,977)	82,822	4,621	11,219,310	(48,837)	132,290	-	(5,395)	(41,384)	5,273,707	19,866,694
Employee share-based compensation reserve of a subsidiary	23,186	-	-	-	-	-	-	-	-	-	-	-	23,186
Non-controlling interests	13,417,396	(3,151,694)	35,446	-	-	-	(45,457)	-	-	(2,428)	41,384	(3,122,749)	10,294,647
TOTAL EQUITY	28,033,569	(9,148,437)	(37,531)	82,822	4,621	11,219,310	(94,294)	132,290	-	(7,823)	-	2,150,958	30,184,527

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The Transactions comprise of the disposals of:

- the equity interests owned by TPG (referred to as "TPG Target Interests" in the Circular of CTIH dated 31 May 2013) and certain assets and liabilities (referred to as "TPG Target Assets" in the same Circular) from TPG to CTIH;
- the equity interests owned by TPG(HK) (referred to as "TPG(HK) Target Interests" in the Circular of CTIH dated 31 May 2013) and certain assets and liabilities (referred to as "TPG(HK) Target Assets" in the same Circular) from TPG(HK) to CTIH.

TPG Target Interests include 25.05% equity interest in Taiping Life Insurance Company Limited ("TPL")*, 38.79% equity interest in Taiping General Insurance Company Limited ("TPI")*, 20% equity interest in Taiping Asset Management Company Limited ("TPAM")*, 4% equity interest in Taiping Pension Company Limited ("TPP")* and other equity interests in Action Profit Development Limited, PT China Taiping Insurance Indonesia, Shenzhen Taiping Investment Company Limited*, Taiping Financial Service Centre (Shanghai) Co., Ltd.* and Taiping Financial Audit Service (Shenzhen) Company Limited* (these other equity interests are hereafter collectively referred to as the "TPG Subsidiaries"). As TPL, TPI, TPAM and TPP are the non-wholly owned subsidiaries of CTIH and TPG(HK) before the Transactions, their respective assets and liabilities as of 31 December 2012 and their respective profit or loss for the year ended 31 December 2012 are already consolidated by the Group and the respective financial impact of their additional equity interests is being illustrated in Pro Forma Adjustments 7 and 8. The financial information of TPG Subsidiaries is extracted from the management accounts for the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group and the respective financial impact of such disposals by TPG and acquisition by CTIH to financial information of the Group is being illustrated in Pro Forma Adjustments 1, 7, 9, 10 and 17.

* These are incorporated in the PRC. The English names of the PRC entities referred to in this Unaudited Pro Forma Financial Information are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

The financial impact of the disposals of TPG Target Assets to the financial information of the Group is being illustrated in Pro Forma Adjustments 3, 7, 11 and 17.

TPG(HK) Target Interests are subsidiaries ("TPG(HK) Subsidiaries") or associate held by TPG(HK). These subsidiaries or associate remain as subsidiaries or associate of TPG(HK) after the disposals of TPG(HK) Target Interests by TPG(HK) to CTIH as CTIH is a non-wholly owned subsidiary of TPG(HK). The financial impact of such disposals to the financial information of the Group is on the change of non-controlling interest and is being illustrated in Pro Forma Adjustments 7 and 17. Similarly, TPG(HK) Target Assets will remain assets and liabilities of the Group after the Transactions. Accordingly, no other adjustments should be made to these TPG(HK) Target Assets except the impact on non-controlling interest illustrated in Pro Forma Adjustments 7 and 17.

In accordance with the Framework Agreement dated 27 May 2013, the Transactions shall be completed in three tranches by issuing new shares by CTIH as payment for the consideration ("Consideration Shares") to TPG or TPG(HK) as follows:

Tranche A: transfer of 25.05% equity interest in TPL from TPG to CTIH;

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Tranche B: transfer of 38.79% equity interest in TPI, 4% equity interest in TPP and 20% equity interest in TPAM from TPG to CTIH;

Tranche C: Remaining transfer from TPG or TPG(HK) to CTIH, as defined under the Framework Agreement, other than 25.05% equity interest in TPL, 38.79% equity interest in TPI, 4% equity interest in TPP and 20% equity interest in TPAM.

Details of the Consideration Shares to be issued by CTIH are set out below:

	Number of Consideration Shares paid to	
	TPG	TPG(HK)
Tranche A	571,656,306	-
Tranche B	152,479,270	-
Tranche C	9,118,121	129,481,573
	733,253,697	129,481,573
Total Consideration Shares to TPG and TPG(HK)		862,735,270

Pursuant to the Framework Agreement, TPG(HK) has contractually agreed to acquire all the Consideration Shares from TPG at a total consideration of RMB8,993,288,100 (approximately HK$11,284,774,000) based on the Issue Price of HK$15.39 each as stated in the Framework Agreement. The total consideration includes i) the consideration for Tranche A and B of HK$11,144,447,000 as mentioned in Pro Forma Adjustment 8 below; ii) the consideration for the TPG Subsidiaries to be decreased by HK$82,822,000 as mentioned in Pro Forma Adjustment 10 below; and iii) the consideration for TPG Target Assets of HK$223,149,000 as mentioned in Pro Forma Adjustment 11 below. Based on the notice dated 11 September 2013 received from TPG by TPG(HK), and the Board of Directors' minutes of both TPG and TPG(HK) dated 24 September 2013 approving such arrangement, out of this aggregate net increase of HK$11,284,774,000 in amount payable by TPG(HK) to TPG, HK$11,219,310,000 would be capitalised through issuing new shares by TPG(HK) to TPG. As the capitalisation of the amount payable to TPG by TPG(HK) is considered part of the group restructuring, for the preparation of pro forma consolidated statement of financial position, it is assumed that the disposals of equity interests in Tranches A and B, TPG Subsidiaries and TPG Target Assets in Tranche C from TPG to CTIH, acquisition of Consideration Shares from TPG by TPG(HK) and capitalisation would be completed as of 31 December 2012. Details of adjustment on capitalisation is set out in Pro Forma Adjustment 12.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Details of Pro Forma Adjustments to the consolidated income statement of the Enlarged Group are set out below:

1. Pro Forma Adjustment 1 represents the combined results extracted from the management accounts of the TPG Subsidiaries for the year ended 31 December 2012. The inter-company transactions among these TPG Subsidiaries and the Group are further eliminated through Pro Forma Adjustment 2 mentioned below.

2. Pro Forma Adjustment 2 represents elimination of inter-company transactions for the year ended 31 December 2012. The eliminations include: i) the elimination of rental income and related expenses of HK$24,331,000; ii) the elimination of back office service income and related expenses of HK$262,844,000; iii) the elimination of internal audit service income and related expenses of HK$53,415,000.

3. Pro Forma Adjustment 3 represents the impact on profit or loss of the TPG Target Assets which are assumed to be transferred from TPG to CTIH as of 1 January 2012. The net investment income of HK$7,664,000, the fair value changes of HK$56,680,000, administrative and other expenses of HK$97,000 and income tax expenses of HK$2,338,000 arising from the investment properties are adjusted accordingly.

4. As in Pro Forma Adjustment 13 below, certain investment properties of a subsidiary of CTIH rented out to TPG Subsidiaries are reclassified as property and equipment in the financial information of TPG(HK). The related impact on profit or loss including fair value gain of HK$10,651,000, depreciation expenses of HK$4,106,000 and income tax expenses of HK$1,636,000, and their impact on the non-controlling interests of HK$2,367,000 are adjusted.

5. For pro forma consolidated statement of profit or loss, it is assumed that the amounts due from TPG and bank loans as mentioned in Pro Forma Adjustment 15 are incurred as of 1 January 2012. Therefore, the related interest income of HK$20,540,000 and interest expense of HK$70,684,000 are adjusted accordingly.

6. Certain subsequent transaction expenses of approximately HK$7,823,000 incurred by a subsidiary of the Company directly attributable to the group restructuring are adjusted as if the subsequent transaction expenses had occurred during the year ended 31 December 2012. The non-controlling interests of HK$2,428,000 are also adjusted accordingly.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

7. Pro Forma Adjustment 7 represents the impact on the non-controlling interests as a result of the Transactions, and details are set out below:

	HK$'000
Non-controlling interests adjusted for:	
The acquisitions of TPL, TPI, TPAM and TPP by CTIH (note i)	(214,033)
The acquisitions of TPG Subsidiaries and TPG(HK) Subsidiaries by CTIH (note ii)	223,849
The acquisitions of TPG Target Assets and TPG(HK) Target Assets by CTIH (note iii)	19,214
Net interest expense on bank loans and amounts due from TPG (note iv)	(19,369)
Decrease of non-controlling interest shareholding in CTIH (note v)	(147,002)
Reclassification of investment properties to property and equipment (note vi)	(2,269)
Non-controlling interests adjusted	(139,610)

Notes:

(i) Adjustment is to account for the non-controlling interests acquired by CTIH via the acquisitions of TPL, TPI, TPAM and TPP from TPG. The amount adjusted is equal to the total of 25.05% net profit in TPL, 38.79% net profit in TPI, 20% net profit in TPAM and 4% net loss in TPP for the year ended 31 December 2012, multiplied by 68.964% which is the shareholding percentage of TPG(HK) in CTIH after the completion of group restructuring.

(ii) Assuming the Transactions were completed as of 1 January 2012, TPG(HK) would indirectly hold 68.964% of the existing shareholding in TPG Subsidiaries held by TPG and TPG(HK) Subsidiaries held by TPG(HK). Therefore, the remaining 31.036% will be accounted for as non-controlling interests. The amount adjusted is equal to the combined net profit of these subsidiaries less non-controlling interests for the year ended 31 December 2012 multiplied by 31.036%, which is the non-controlling interests shareholding percentage in CTIH after the group restructuring.

(iii) Adjustment is to account for share of non-controlling interest on net profit arising from the TPG Target Assets and TPG(HK) Target Assets being acquired by CTIH, multiplied by 31.036%, which is the non-controlling interests shareholding percentage in CTIH after the group restructuring.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Notes: - continued

(iv) Adjustment is to account for the impact of interest expense and income on subsequent bank loans and amounts due from TPG in Pro Forma Adjustment 5. The amount adjusted is equal to the interest expense and income on the bank loans and amounts due from TPG newly incurred by CTIH and its subsidiaries including TPG(HK) Subsidiaries as if the Transactions were completed as of 1 January 2012, multiplied by 31.036%, which is the non-controlling interests shareholding percentage in CTIH after the group restructuring.

(v) Adjustment is to account for the impact of the change of the non-controlling interests in CTIH from 46.732% to 31.036% as a result of the group restructuring. The amount adjusted is equal to the net profit attributable to owners of CTIH for the year ended 31 December 2012, multiplied by the change of shareholding percentage.

(vi) Adjustment is to account for the impact on non-controlling interests of reclassification of certain investment properties to property and equipment as those investment properties are being rented within the Enlarged Group as mentioned in the Pro Forma Adjustment 17(v) below.

Details of Pro Forma Adjustments to the consolidated statement of financial position of the Enlarged Group are set out below:

8. Assuming the three tranches are all completed on 31 December 2012, 862,735,270 CTIH shares ("Consideration Shares") would be issued on that date as if all the subsequent capital injections to TPL, TPI, TPAM and TPP including post Framework Agreement capital injections were completed as mentioned below under Tranches A and B on 31 December 2012.

Tranches A and B

Regarding the acquisition of additional interests in the subsidiaries, TPL, TPI, TPAM and TPP by CTIH, the changes in TPG(HK)'s ownership interests in these four subsidiaries indirectly held through CTIH will be accounted for as equity transactions (i.e. transactions with owners in their capacity as owners) in accordance with Hong Kong Accounting Standard ("HKAS") 27 (Revised), "Consolidated and Separate Financial Statements" ("HKAS 27 (Revised)"). The related carrying amounts of the non-controlling interests are adjusted to reflect the changes in their relative interests in each of the subsidiaries. Any difference between (i) the amount by which the non-controlling interests are adjusted and (ii) the fair value of the consideration paid is recognised directly in equity and attributed to the owners of the Company.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Tranches A and B - continued

For Tranches A and B, CTIH will satisfy the consideration by issuance of 724,135,576 new Consideration Shares. Details are set out below:

	Number of Consideration Shares	Consideration In HK$'000 Note (i)
Tranche A		
25.05% equity interest in TPL (note (ii))	571,656,306	8,797,791
Tranche B		
38.79% equity interest in TPI (note (ii))	131,804,860	2,028,477
20% equity interest in TPAM (note (ii))	15,717,699	241,895
4% equity interest in TPP (note (ii))	4,956,711	76,284
Total	724,135,576	11,144,447

Notes:

(i) The consideration is based on the Issue Price of HK$15.39 per share as stated in the Framework Agreement.

(ii) The Consideration Shares for TPL, TPI, TPAM and TPP already accounted for the subsequent capital injections made by TPG, which are assumed to be completed by 31 December 2012. Details of the capital injections in cash by TPG and another non-controlling shareholder (excluding the capital injection of CTIH which is already eliminated upon consolidation) are as follows:

	Injected by	
	TPG HK$'000	Another non-controlling shareholder HK$'000
Subsequent RMB capital injections (converted into HK$):		
TPL	785,819	781,113
TPI	243,368	-
TPAM	87,836	87,836
TPP	10,038	-
	1,127,061	868,949
Total capital injections by TPG and another non-controlling shareholder in cash		1,996,010

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Tranches A and B - continued

For TPG(HK), the pro forma adjustment to non-controlling interests and capital reserve in respect of the additional equity interests acquired in TPL, TPI, TPAM and TPP are set out below:

	HK$'000
The non-controlling interests would be decreased by:	
25.05% net assets value of TPL as of 31 December 2012	3,121,056
38.79% net assets value of TPI as of 31 December 2012	829,122
20% net assets value of TPAM as of 31 December 2012	43,300
4% net assets value of TPP as of 31 December 2012	27,165
Non-controlling interests acquired indirectly through CTIH	4,020,643
Less: Subsequent capital injections by another non-controlling shareholder mentioned above	868,949
	3,151,694
Pro forma fair value of consideration based on 724,135,576 number of Consideration Shares multiplied by Issue Price of HK$15.39 - being amount due to TPG	11,144,447
Less: Subsequent capital injections by TPG mentioned above	1,127,061
Non-controlling interests acquired indirectly through CTIH	4,020,643
Pro forma adjustment to capital reserve	5,996,743

Since the fair value of the CTIH shares at completion date may be substantially different from the assumed issue price used in the preparation of this unaudited pro forma financial information of the Enlarged Group, the final amounts of the fair value of the new shares to be recognised in connection with the restructuring at the completion date could be different from the estimated amount stated herein.

9. Pro Forma Adjustment 9 represents the consolidation of the combined statement of financial position extracted from the management accounts of the TPG Subsidiaries (included in Tranche C) as of 31 December 2012 to be acquired by CTIH from TPG. After the Transactions, these TPG Subsidiaries would become subsidiaries of CTIH. The inter-company balances among these TPG Subsidiaries, the Group and Target Assets are further eliminated through Pro Forma Adjustments 10 and 14 mentioned below.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

10. TPG Subsidiaries included in Tranche C are accounted for using merger accounting for "common control combinations" as the Company considers that these subsidiaries and the Group are ultimately controlled by the same party (i.e. TPG) before and after the business combination, and that control is not transitory. Accordingly, the Company adopts merger accounting to consolidate the TPG Subsidiaries in the Enlarged Group by reference to Hong Kong Accounting Guideline 5 at the carrying amounts of their respective assets and liabilities as originally included in the consolidated financial statements of TPG.

    For the acquisition of these TPG Subsidiaries, CTIH will reduce the Consideration Shares being issued amounting to HK$82,822,000 based on the Issue Price of HK$15.39.

	HK$'000
Reduction of consideration due to TPG for the Transactions	82,822
Share capital of TPG subsidiaries to be eliminated	54,719
Capital reserve representing capital injection not classified as share capital as of 31 December 2012	13,430
Merger reserve	150,971
Less: Capital reserve mentioned above	13,430
Total adjustment to reserves	137,541

11. The TPG Target Assets included in Tranche C with amounts being extracted from the management accounts of TPG, include (i) various real estate properties with carrying amount of approximately HK$222,276,000, (ii) certain electronic equipment with carrying amount of approximately HK$347,000, (iii) amounts due from group companies with carrying amount of approximately HK$4,897,000 and other debtors with carrying amount of approximately HK$250,000. The TPG Target Assets are to be acquired by CTIH by issuing 14,499,870 Consideration Shares to TPG. TPG(HK) will acquire these Consideration Shares from TPG at Issue Price of the Framework Agreement at HK$15.39, which will be reflected as an amount due to TPG of HK$223,149,000. The difference of HK$4,621,000 between the consideration amount and the carrying amount of Target Assets is accounted for as capital reserve and represents the fair value change of investment properties and exchange difference of the TPG Target Assets. The impact of adjustment on non-controlling interest is being taken into account in the Pro Forma Adjustment 17.

12. As mentioned above, based on the notice dated 11 September 2013 received from TPG by TPG(HK), and the Board of Directors' minutes of both TPG and TPG(HK) dated 24 September 2013 approving such arrangement, out of this aggregate net increase of HK$11,284,774,000 in amount payable by TPG(HK) to TPG, arising from the acquisition of Consideration Shares issued by CTIH to TPG as illustrated in Pro Forma Adjustments 8, 10 and 11, HK$11,219,310,000 would be capitalised through issuing new shares by TPG(HK) to TPG. Therefore, amount payable by TPG(HK) to TPG of HK$11,219,310,000 is further adjusted from amount due to group companies to share capital.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

13. Certain investment properties of a subsidiary of CTIH with carrying amounts of approximately HK$328,524,000 rented out to TPG Subsidiaries are reclassified as property and equipment with carrying amounts of approximately HK$202,798,000 after taking into account the reversal of accumulated fair value appreciation of HK$119,309,000, based on independent properties valuation result, and recognition of accumulated depreciation of HK$6,417,000, extracted from the management account of the subsidiary, from the date when the properties first became held for own use within the Enlarged Group up to 31 December 2012. The net impact of the fair value reversal of investment properties and the recognition of the accumulated depreciation expense of the properties after the date of reclassification and the related deferred tax liabilities impact of HK$31,432,000 based on the statutory tax rate would be debited to reserves of HK$48,837,000 and non-controlling interests of HK$45,457,000 accordingly.

14. Pro Forma Adjustment 14 represents elimination of inter-company amounts receivable and payable between the Group, TPG Subsidiaries and TPG Target Assets. Amounts due from group companies of HK$49,365,000, other debtors of HK$13,220,000, amounts due to group companies of HK$168,435,000 are eliminated. The net difference of HK$132,290,000 representing the impairment losses recognised previously on inter-company balances is adjusted to reserves.

15. For the purpose of the group restructuring exclusively, subsequent to 31 December 2012, CTIH raised bank loans to finance its capital injections in TPL, TPI, TPAM and TPP in Tranches A and B. TPG(HK) and its subsidiaries also raised bank loans and lent the proceeds from these bank loans to TPG for its capital injections in TPL, TPI, TPAM and TPP in Tranches A and B. Therefore, for the preparation of the consolidated statement of financial position, it is assumed that all the subsequent borrowing and lending and the capital injections for the group restructuring occurred as of 31 December 2012.

    The total amount of bank loans made for the group restructuring purpose is HK$2,817,500,000. All the capital injections by TPG of HK$1,127,061,000 mentioned in Pro Forma Adjustment 8 are borrowed from the Group. From the perspective of the Enlarged Group, the amounts due from TPG and cash and cash equivalents should be increased by HK$1,127,061,000 and HK$1,690,439,000 respectively.

16. As mentioned in Pro Forma Adjustment 6, the subsequent transaction expenses are assumed to be paid as of 31 December 2012. The non-controlling interests of HK$2,428,000 are also adjusted accordingly.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

17. Pro Forma Adjustment 17 represents adjustment of non-controlling interests and reserves. Details are set out below:

	Enlarged Group HK$'000
Non-controlling interests adjusted for:	
The acquisitions of TPL, TPI, TPAM and TPP by CTIH (note i)	1,597,641
The acquisitions of TPG Subsidiaries and TPG(HK) Subsidiaries by CTIH (note ii)	1,392,814
The acquisitions of TPG Target Assets and TPG(HK) Target Assets by CTIH (note iii)	(740,387)
Decrease of non-controlling interest shareholding in CTIH (note iv)	(2,171,819)
Reclassification of investment properties to property and equipment (note v)	(36,865)
	41,384

Notes:

(i) Adjustment is to account for the impact to non-controlling interests arising from the acquisitions of interests in TPL, TPI, TPAM and TPP by CTIH. Details are set out below:

	HK$'000
Non-controlling interests of TPL, TPI, TPAM and TPP acquired indirectly through CTIH (note)	4,020,643
Subsequent capital injection from TPG (note)	1,127,061
	5,147,704
Multiplied by	31.036%
	1,597,641

Note: Details are set out in Pro Forma Adjustment 8.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Notes: - continued

(ii) After the group restructuring, TPG(HK) will indirectly hold 68.964% shares of TPG Subsidiaries and TPG(HK) Subsidiaries. Therefore, pro forma adjustment is required to account for the change in non-controlling interest in TPG Subsidiaries and TPG(HK) Subsidiaries. Details are set out below:

	HK$'000
Combined net assets of TPG Subsidiaries and TPG(HK) Subsidiaries as of 31 December 2012 (note a)	6,425,560
Add: Impairment loss reversed on inter-company eliminations	473,474
Less: Non-controlling interests of non-wholly owned TPG Subsidiaries and TPG(HK) Subsidiaries	1,473,583
Net assets of Tellon Development Limited as of 31 December 2012 (note b)	937,715
	4,487,736
Multiplied by	31.036%
	1,392,814

Notes:

(a) The net assets of the TPG Subsidiaries and TPG(HK) Subsidiaries for the compilation of the combined net assets are extracted from respective management accounts.

(b) Tellon Development Limited is a subsidiary of TPG(HK) Subsidiaries. However, Tellon Development Limited is not included in the Transactions but was instead sold to TPG(HK) before the execution of the Transactions.

(iii) Similar to note (ii) above, the amount adjusted is equal to aggregate of net target assets of TPG of HK$227,770,000 and net target liabilities of TPG(HK) of HK$2,613,345,000 multiplied by 31.036%, which is the non-controlling shareholding percentage in CTIH after the group restructuring.

(iv) Adjustment is to account for the impact of the change of the non-controlling interest in CTIH from 46.732% to 31.036% as a result of the group restructuring. The amount is equal to the net assets attributable to owners of CTIH of HK$13,836,769,000 as of 31 December 2012, multiplied by the change of shareholding percentage.

(v) Adjustment is to account for the impact on non-controlling interests of reclassification of certain investment properties to property and equipment upon the consolidation of CTIH by the Group and the consolidation of TPG Subsidiaries by the Enlarged Group. The amount is equal to the aggregate of: i) the net decrease in net assets arising from the reclassification of the properties held by a subsidiary of TPG(HK) multiplied by 31.036%, which is the non-controlling shareholding percentage in CTIH after the group restructuring, and ii) the net decrease in net assets arising from the reclassification of properties held by a subsidiary of CTIH multiplied by the change of the non-controlling interest in CTIH from 46.732% to 31.036%.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

TO THE DIRECTORS OF
CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Taiping Insurance Group (HK) Company Limited (the "Company" or "TPG(HK)") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the pro forma consolidated statement of financial position as of 30 June 2013, the pro forma consolidated statement of profit or loss for the six months ended 30 June 2013 and related notes to the unaudited pro forma financial information. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in the notes to the unaudited pro forma financial information.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the contemplated disposal of certain entities, assets and liabilities by the Company and China Taiping Insurance Group Co., the Company's immediate holding company, to China Taiping Insurance Holdings Company Limited, the Company's non-wholly owned subsidiary listed in Hong Kong, on the Group's financial position as of 30 June 2013 and the Group's financial performance for the six months ended 30 June 2013 as if the transaction had taken place on 30 June 2013 and 1 January 2013, respectively. As part of this process, information about the Group's financial position and financial performance has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30 June 2013, on which a review report has been issued by us.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors of the Company are responsible for compiling the unaudited pro forma financial information on the basis of compilation set out in notes to unaudited the pro forma financial information.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the unaudited pro forma financial information on the basis of compilation set out in notes to the unaudited pro forma financial information.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

TO THE DIRECTORS OF
CHINA TAIPING INSURANCE GROUP (HK) COMPANY LIMITED - continued

Reporting Accountants' Responsibilities

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2013 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the unaudited pro forma financial information has been compiled, in all material respects, on the basis of the compilation set out in the notes to the unaudited pro forma financial information.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong,
4 October 2013

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Pursuant to the Framework Agreement entered into on 27 May 2013 among China Taiping Insurance Group (HK) Company Limited ("TPG(HK)"), China Taiping Insurance Group Co. ("TPG"), the immediate holding company of TPG(HK), and China Taiping Insurance Holdings Company Limited ("CTIH"), the non-wholly owned subsidiary of TPG(HK) listed in Hong Kong, TPG and TPG(HK) have contractually agreed to dispose and CTIH and its subsidiaries have contractually agreed to acquire certain entities, assets and liabilities as stated in the Framework Agreement (collectively referred to as the "Transactions").

The following unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") has been prepared in accordance with the notes to the Unaudited Pro Forma Financial Information for the purpose of illustrating the effect of the Transactions to the financial position and financial performance of the enlarged group (the "Enlarged Group") as if the Transactions had been completed on 30 June 2013 and 1 January 2013, respectively.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on the condensed consolidated financial statements of TPG(HK) and its subsidiaries (hereinafter collectively referred to as the "Group") as of and for the six months ended 30 June 2013 as extracted from the 2013 interim financial information of the Company after making pro forma adjustments on the basis of compilation set out in notes to the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and is based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to describe financial position or financial performance of the Enlarged Group that would have been attained had the Transactions been completed at the date stated, nor does it purport to predict the financial position of the Enlarged Group at 30 June 2013 or at any future dates or the financial performance of the Enlarged Group for the six months ended 30 June 2013 or any further periods.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP

	The Group	Pro forma adjustment 1	Pro forma adjustment 2	Pro forma adjustment 3	Pro forma adjustment 4	Pro forma adjustment 5	Total Pro forma adjustments	The Enlarged Group
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue - Gross premiums written and policy fees	51,165,331	61,528	-	-	-	-	61,528	51,226,859
Less: Premiums ceded to reinsurers and retrocessionaires	(1,751,246)	(51,635)	-	-	-	-	(51,635)	(1,802,881)
Net premiums written and policy fees	49,414,085	9,893	-	-	-	-	9,893	49,423,978
Change in unearned premium provisions, net of reinsurance	(1,277,966)	795	-	-	-	-	795	(1,277,171)
Net earned premiums and policy fees	48,136,119	10,688	-	-	-	-	10,688	48,146,807
Net investment income	4,855,403	2,097	(14,335)	4,217	-	-	(8,021)	4,847,382
Net realised and unrealised investment gains and impairment	160,499	-	-	19,820	(543)	-	19,277	179,776
Other income and gains	301,610	179,203	(177,394)	-	-	-	1,809	303,419
	53,453,631	191,988	(191,729)	24,037	(543)	-	23,753	53,477,384
Benefits, losses and expenses								
Net policyholders' benefits	(9,950,169)	(4,998)	-	-	-	-	(4,998)	(9,955,167)
Net commission expenses	(4,263,757)	3,742	-	-	-	-	3,742	(4,260,015)
Change in life insurance contract liabilities, net of reinsurance	(31,227,746)	-	-	-	-	-	-	(31,227,746)
Administrative and other expenses	(6,547,901)	(198,283)	191,729	(104)	(1,914)	-	(8,572)	(6,556,473)
Total benefits, losses and expenses	(51,989,573)	(199,539)	191,729	(104)	(1,914)	-	(9,828)	(51,999,401)
Profit from operations	1,464,058	(7,551)	-	23,933	(2,457)	-	13,925	1,477,983
Share of results of associates	25,193	-	-	-	-	-	-	25,193
Share of result of a joint venture	5	-	-	-	-	-	-	5
Finance costs	(410,846)	-	-	-	-	-	-	(410,846)
Profit before taxation	1,078,410	(7,551)	-	23,933	(2,457)	-	13,925	1,092,335
Income tax expense	(252,240)	-		(1,058)	614	-	(444)	(252,684)
Profit after taxation	826,170	(7,551)	-	22,875	(1,843)	-	13,481	839,651
Profit after taxation attributable to:								
Owners of the Company	413,819	(10,552)	-	22,875	(955)	156,662	168,030	581,849
Non-controlling interests	412,351	3,001	-	-	(888)	(156,662)	(154,549)	257,802
	826,170	(7,551)	-	22,875	(1,843)	-	13,481	839,651

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group HK$'000	Pro forma adjustment 6 HK$'000	Pro forma adjustment 7 HK$'000	Pro forma adjustment 8 HK$'000	Pro forma adjustment 9 HK$'000	Pro forma adjustment 10 HK$'000	Pro forma adjustment 11 HK$'000	Pro forma adjustment 12 HK$'000	Pro forma adjustment 13 HK$'000	Total Pro forma adjustments HK$'000	The Enlarged Group HK$'000
Assets											
Statutory deposits	4,577,543	-	7,505	-	-	-	-	-	-	7,505	4,585,048
Property and equipment	4,809,544	-	18,666	-	347	-	194,973	-	-	213,986	5,023,530
Investment properties	9,868,309	-	-	-	242,096	-	(328,606)	-	-	(86,510)	9,781,799
Prepaid lease payments	165,291	-	-	-	-	-	-	-	-	-	165,291
Goodwill	1,051,215	-	-	-	-	-	-	-	-	-	1,051,215
Intangible assets	263,381	-	-	-	-	-	-	-	-	-	263,381
Interests in associates	858,293	-	-	-	-	-	-	-	-	-	858,293
Interest in a joint venture	213	-	-	-	-	-	-	-	-	-	213
Construction in progress	146,549	-	-	-	-	-	-	-	-	-	146,549
Investments in debt and equity securities	187,318,795	-	19,490	-	-	-	-	-	-	19,490	187,338,285
Securities purchased under resale agreements	2,437,504	-	-	-	-	-	-	-	-	-	2,437,504
Insurance debtors	3,695,498	-	24,456	-	-	-	-	-	-	24,456	3,719,954
Reinsurers' share of insurance contract provisions	3,160,342	-	151,850	-	-	-	-	-	-	151,850	3,312,192
Policyholder account assets in respect of unit- linked products	2,928,484	-	-	-	-	-	-	-	-	-	2,928,484
Other debtors	13,425,481	-	3,633	-	250	-	-	(5,381)	-	(1,498)	13,423,983
Amounts due from group companies	4,233,485	-	31,357	-	4,897	-	-	(42,047)	-	(5,793)	4,227,692
Tax recoverable	32,150	-	-	-	-	-	-	-	-	-	32,150
Deferred tax assets	155,131	-	1,837	-	-	-	-	-	-	1,837	156,968
Pledged deposits at banks	295,835	-	-	-	-	-	-	-	-	-	295,835
Deposits at banks with original maturity more than 3 months	35,883,524	-	34,983	-	-	-	-	-	-	34,983	35,918,507
Cash and cash equivalents	17,030,296	-	67,677	-	-	-	-	-	-	67,677	17,097,973
TOTAL ASSETS	292,336,863	-	361,454	-	247,590	-	(133,633)	(47,428)	-	427,983	292,764,846
Liabilities											
Life insurance contract liabilities	154,887,030	-	-	-	-	-	-	-	-	-	154,887,030
Unearned premium provisions	8,337,819	-	63,006	-	-	-	-	-	-	63,006	8,400,825
Provision for outstanding claims	11,656,080	-	110,114	-	-	-	-	-	-	110,114	11,766,194
Investment contract liabilities	22,505,205	-	-	-	-	-	-	-	-	-	22,505,205
Securities sold under repurchase agreements	29,577,213	-	-	-	-	-	-	-	-	-	29,577,213
Interest-bearing notes	13,489,423	-	-	-	-	-	-	-	-	-	13,489,423
Bank loans and other borrowings	7,156,167	-	-	-	-	-	-	-	-	-	7,156,167
Insurance creditors	4,995,995	-	12,916	-	-	-	-	-	-	12,916	5,008,911
Other creditors	4,795,277	(87,836)	59,609	-	-	-	-	-	-	(28,227)	4,767,050
Amounts due to group companies	189,502	11,056,611	162,045	(82,822)	223,149	(11,219,310)	-	(179,720)	-	(40,047)	149,455
Current taxation	402,516	-	246	-	-	-	-	-	-	246	402,762
Deferred tax liabilities	2,030,203	-	-	-	-	-	(33,408)	-	-	(33,408)	1,996,795
Insurance protection fund	83,753	-	-	-	-	-	-	-	-	-	83,753
Derivative financial instruments	3,253	-	-	-	-	-	-	-	-	-	3,253
TOTAL LIABILITIES	260,109,436	10,968,775	407,936	(82,822)	223,149	(11,219,310)	(33,408)	(179,720)	-	84,600	260,194,036
NET ASSETS	32,227,427	(10,968,775)	(46,482)	82,822	24,441	11,219,310	(100,225)	132,292	-	343,383	32,570,810
CAPITAL AND RESERVES											
Share capital and share premium	3,594,500	-	68,149	(68,149)	-	11,219,310	-	-	-	11,219,310	14,813,810
Other reserves	13,045,975	(5,691,719)	(151,998)	150,971	24,441	-	(51,908)	132,292	(152,905)	(5,740,826)	7,305,149
Equity attributable to owners of the Company	16,640,475	(5,691,719)	(83,849)	82,822	24,441	11,219,310	(51,908)	132,292	(152,905)	5,478,484	22,118,959
Employee share-based compensation reserve of a subsidiary	13,893	-	-	-	-	-	-	-	-	-	13,893
Non-controlling interests	15,573,059	(5,277,056)	37,367	-	-	-	(48,317)	-	152,905	(5,135,101)	10,437,958
TOTAL EQUITY	32,227,427	(10,968,775)	(46,482)	82,822	24,441	11,219,310	(100,225)	132,292	-	343,383	32,570,810

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The Transactions comprise of the disposals of:

- the equity interests owned by TPG (referred to as "TPG Target Interests" in the Circular of CTIH dated 31 May 2013) and certain assets and liabilities (referred to as "TPG Target Assets" in the same Circular) from TPG to CTIH;
- the equity interests owned by TPG(HK) (referred to as "TPG(HK) Target Interests" in the Circular of CTIH dated 31 May 2013) and certain assets and liabilities (referred to as "TPG(HK) Target Assets" in the same Circular) from TPG(HK) to CTIH.

TPG Target Interests include 25.05% equity interest in Taiping Life Insurance Company Limited ("TPL")*, 38.79% equity interest in Taiping General Insurance Company Limited ("TPI")*, 20% equity interest in Taiping Asset Management Company Limited ("TPAM")*, 4% equity interest in Taiping Pension Company Limited ("TPP")* and other equity interests in Action Profit Development Limited, PT China Taiping Insurance Indonesia, Shenzhen Taiping Investment Company Limited*, Taiping Financial Service Centre (Shanghai) Co., Ltd.* and Taiping Financial Audit Service (Shenzhen) Company Limited* (these other equity interests are hereafter collectively referred to as the "TPG Subsidiaries"). As TPL, TPI, TPAM and TPP are the non-wholly owned subsidiaries of CTIH and TPG(HK) before the Transactions, their respective assets and liabilities as of 30 June 2013 and their respective profit or loss for the six months ended 30 June 2013 are already consolidated by the Group and the respective financial impact of their additional equity interests is being illustrated in Pro Forma Adjustments 5 and 6. The financial information of TPG Subsidiaries is extracted from the management accounts for the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group and the respective financial impact of such disposals by TPG and acquisition by CTIH to financial information of the Group is being illustrated in Pro Forma Adjustments 1, 5, 7, 8 and 13.

* These are incorporated in the PRC. The English names of the PRC entities referred to in this Unaudited Pro Forma Financial Information are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

The financial impact of the disposals of TPG Target Assets to the financial information of the Group is being illustrated in Pro Forma Adjustments 3, 5, 9 and 13.

TPG(HK) Target Interests are subsidiaries ("TPG(HK) Subsidiaries") or associate held by TPG(HK). These subsidiaries or associate remain as subsidiaries or associate of TPG(HK) after the disposals of TPG(HK) Target Interests by TPG(HK) to CTIH as CTIH is a non-wholly owned subsidiary of TPG(HK). The financial impact of such disposals to the financial information of the Group is on the change of non-controlling interest and is being illustrated in Pro Forma Adjustments 5 and 13. Similarly, TPG(HK) Target Assets will remain assets and liabilities of the Group after the Transactions. Accordingly, no other adjustments should be made to these TPG(HK) Target Assets except the impact on non-controlling interest illustrated in Pro Forma Adjustments 5 and 13.

In accordance with the Framework Agreement dated 27 May 2013, the Transactions shall be completed in three tranches by issuing new shares by CTIH as payment for the consideration ("Consideration Shares") to TPG or TPG(HK) as follows:

Tranche A: transfer of 25.05% equity interest in TPL from TPG to CTIH;

Tranche B: transfer of 38.79% equity interest in TPI, 4% equity interest in TPP and 20% equity interest in TPAM from TPG to CTIH;

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Tranche C: Remaining transfer from TPG or TPG(HK) to CTIH, as defined under the Framework Agreement, other than 25.05% equity interest in TPL, 38.79% equity interest in TPI, 4% equity interest in TPP and 20% equity interest in TPAM.

Details of the Consideration Shares to be issued by CTIH are set out below:

	Number of Consideration Shares paid to	
	TPG	TPG(HK)
Tranche A	571,656,306	-
Tranche B	152,479,270	-
Tranche C	9,118,121	129,481,573
	733,253,697	129,481,573
Total Consideration Shares to TPG and TPG(HK)		862,735,270

Pursuant to the Framework Agreement, TPG(HK) has contractually agreed to acquire all the Consideration Shares from TPG at a total consideration of RMB8,993,288,100 (approximately HK$11,284,774,000) based on the Issue Price of HK$15.39 each as stated in the Framework Agreement. The total consideration includes i) the consideration for Tranche A and B of HK$11,144,447,000 as mentioned in Pro Forma Adjustment 6 below; ii) the consideration for the TPG Subsidiaries to be decreased by HK$82,822,000 as mentioned in Pro Forma Adjustment 8 below; and iii) the consideration for TPG Target Assets of HK$223,149,000 as mentioned in Pro Forma Adjustment 9 below. Based on the notice dated 11 September 2013 received from TPG by TPG(HK), and the Board of Directors' minutes of both TPG and TPG(HK) dated 24 September 2013 approving such arrangement, out of this aggregate net increase of HK$11,284,774,000 in amount payable by TPG(HK) to TPG, HK$11,219,310,000 would be capitalised through issuing new shares by TPG(HK) to TPG. As the capitalisation of the amount payable to TPG by TPG(HK) is considered part of the group restructuring, for the preparation of pro forma consolidated statement of financial position, it is assumed that the disposals of equity interests in Tranches A and B, TPG Subsidiaries and TPG Target Assets in Tranche C from TPG to CTIH, acquisition of Consideration Shares from TPG by TPG(HK) and capitalisation would be completed as of 30 June 2013. Details of adjustment on capitalisation is set out in Pro Forma Adjustment 10.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Details of Pro Forma Adjustments to the consolidated income statement of the Enlarged Group are set out below:

1. Pro Forma Adjustment 1 represents the combined results extracted from the management accounts of the TPG Subsidiaries for the six months ended 30 June 2013. The inter-company transactions among these TPG Subsidiaries and the Group are further eliminated through Pro Forma Adjustment 2 mentioned below.

2. Pro Forma Adjustment 2 represents elimination of inter-company transactions for the six months ended 30 June 2013. The eliminations include: i) the elimination of rental income and related expenses of HK$14,335,000; ii) the elimination of back office service income and related expenses of HK$144,255,000; iii) the elimination of internal audit service income and related expenses of HK$33,139,000.

3. Pro Forma Adjustment 3 represents the impact on profit or loss of the TPG Target Assets which are assumed to be transferred from TPG to CTIH as of 1 January 2013. The net investment income of HK$4,217,000, the fair value changes of HK$19,820,000, administrative and other expenses of HK$104,000 and income tax expenses of HK$1,058,000 arising from the investment properties are adjusted accordingly.

4. As in Pro Forma Adjustment 11 below, certain investment properties of a subsidiary of CTIH rented out to TPG Subsidiaries are reclassified as property and equipment in the financial information of TPG(HK). The related impact on profit or loss including fair value gain of HK$543,000, depreciation expenses of HK$1,914,000 and income tax expenses of HK$614,000, and their impact on the non-controlling interests of HK$888,000 are adjusted.

5. Pro Forma Adjustment 5 represents the impact on the non-controlling interests as a result of the Transactions, and details are set out below:

	HK$'000
Non-controlling interests adjusted for:	
The acquisitions of TPL, TPI, TPAM and TPP by CTIH (note i)	(144,816)
The acquisitions of TPG Subsidiaries and TPG(HK) Subsidiaries by CTIH (note ii)	58,729
The acquisitions of TPG Target Assets and TPG(HK) Target Assets by CTIH (note iii)	7,099
Decrease of non-controlling interest shareholding in CTIH (note iv)	(81,292)
Reclassification of investment properties to property and equipment (note v)	3,618
Non-controlling interests adjusted	(156,662)

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Notes:

(i) Adjustment is to account for the non-controlling interests acquired by CTIH via the acquisitions of TPL, TPI, TPAM and TPP from TPG. The amount adjusted is equal to the total of 25.05% net profit in TPL, 38.79% net profit in TPI, 20% net loss in TPAM and 4% net loss in TPP for the six months ended 30 June 2013, multiplied by 68.964% which is the shareholding percentage of TPG(HK) in CTIH after the completion of group restructuring.

(ii) Assuming the Transactions were completed as of 1 January 2013, TPG(HK) would indirectly hold 68.964% of the existing shareholding in TPG Subsidiaries held by TPG and TPG(HK) Subsidiaries held by TPG(HK). Therefore, the remaining 31.036% will be accounted for as non-controlling interests. The amount adjusted is equal to the combined net profit of these subsidiaries less non-controlling interests for the six months ended 30 June 2013 multiplied by 31.036%, which is the non-controlling interests shareholding percentage in CTIH after the group restructuring.

(iii) Adjustment is to account for share of non-controlling interest on net profit arising from the TPG Target Assets and TPG(HK) Target Assets being acquired by CTIH, multiplied by 31.036%, which is the non-controlling interests shareholding percentage in CTIH after the group restructuring.

(iv) Adjustment is to account for the impact of the change of the non-controlling interests in CTIH from 46.732% to 31.036% as a result of the group restructuring. The amount adjusted is equal to the net profit attributable to owners of CTIH for the six months ended 30 June 2013, multiplied by the change of shareholding percentage.

(v) Adjustment is to account for the impact on non-controlling interests of reclassification of certain investment properties to property and equipment as those investment properties are being rented within the Enlarged Group as mentioned in the Pro Forma Adjustment 13(v) below.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Details of Pro Forma Adjustments to the consolidated statement of financial position of the Enlarged Group are set out below:

6. Assuming the three tranches are all completed on 30 June 2013, 862,735,270 CTIH shares ("Consideration Shares") would be issued on that date as if the capital injection to TPAM were completed as mentioned below under Tranches A and B on 30 June 2013.

Tranches A and B

Regarding the acquisition of additional interests in the subsidiaries, TPL, TPI, TPAM and TPP by CTIH, the changes in TPG(HK)'s ownership interests in these four subsidiaries indirectly held through CTIH will be accounted for as equity transactions (i.e. transactions with owners in their capacity as owners) in accordance with Hong Kong Accounting Standard ("HKAS") 27 (Revised), "Consolidated and Separate Financial Statements" ("HKAS 27 (Revised)"). The related carrying amounts of the non-controlling interests are adjusted to reflect the changes in their relative interests in each of the subsidiaries. Any difference between (i) the amount by which the non-controlling interests are adjusted and (ii) the fair value of the consideration paid is recognised directly in equity and attributed to the owners of the Company.

For Tranches A and B, CTIH will satisfy the consideration by issuance of 724,135,576 new Consideration Shares. Details are set out below:

	Number of Consideration Shares	Consideration In HK$'000 Note (i)
Tranche A		
25.05% equity interest in TPL	571,656,306	8,797,791
Tranche B		
38.79% equity interest in TPI	131,804,860	2,028,477
20% equity interest in TPAM (note (ii))	15,717,699	241,895
4% equity interest in TPP	4,956,711	76,284
Total	724,135,576	11,144,447

Notes:

(i) The consideration is based on the Issue Price of HK$15.39 per share as stated in the Framework Agreement.

(ii) The Consideration Shares for TPAM already accounted for the post Framework Agreement capital injection of RMB70,000,000 (equivalent to approximately HK$87,836,000) made by TPG, which is assumed to be completed by 30 June 2013. The related shareholder's resolution was signed in February 2013 and the related capital contribution was made in May 2013 with the required legal procedures by related PRC government authorities being completed in July 2013.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

For TPG(HK), the pro forma adjustment to non-controlling interests and capital reserve in respect of the additional equity interests acquired in TPL, TPI, TPAM and TPP are set out below:

	HK$'000
The non-controlling interests would be decreased by:	
25.05% net assets value of TPL as of 30 June 2013	3,792,292
38.79% net assets value of TPI as of 30 June 2013	1,442,126
20% net assets value of TPAM as of 30 June 2013	94,199
4% net assets value of TPP as of 30 June 2013	36,275
Non-controlling interests acquired indirectly through CTIH	5,364,892
Less: other creditors representing the capital injection from the non-controlling interests (note)	87,836
Total	5,277,056
Pro forma fair value of consideration based on 724,135,576 number of Consideration Shares multiplied by Issue Price of HK$15.39 - being amount due to TPG	11,144,447
Less: Amounts due to group companies representing the capital injection from TPG (note)	87,836
Consideration - being amounts due to group companies increased	11,056,611
Less: Non-controlling interests acquired indirectly through CTIH	5,364,892
Pro forma adjustment to capital reserve	5,691,719

Note:

The related TPAM shareholder's resolution was signed in February 2013 and the related capital contribution was made in May 2013 with the required legal procedures by related PRC government authorities being completed in July 2013. Assuming the capital injection in TPAM of RMB70,000,000 (equivalent to HK$87,836,000) each from TPG and another non-controlling interest being completed as of 30 June 2013 in respect of their equity interests in TPAM. Therefore, the amount due to group companies representing the capital injection from TPG is classified as capital reserve, and other creditors representing the capital injection from the non-controlling interest is classified as non-controlling interests.

Since the fair value of the CTIH shares at completion date may be substantially different from the assumed issue price used in the preparation of this unaudited pro forma financial information of the Enlarged Group, the final amounts of the fair value of the new shares to be recognised in connection with the restructuring at the completion date could be different from the estimated amount stated herein.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

7. Pro Forma Adjustment 7 represents the consolidation of the combined statement of financial position extracted from the management accounts of the TPG Subsidiaries (included in Tranche C) as of 30 June 2013 to be acquired by CTIH from TPG. After the Transactions, these TPG Subsidiaries would become subsidiaries of CTIH. The inter-company balances among these TPG Subsidiaries, the Group and Target Assets are further eliminated through Pro Forma Adjustments 8 and 12 mentioned below.

8. TPG Subsidiaries included in Tranche C are accounted for using merger accounting for "common control combinations" as the Company considers that these subsidiaries and the Group are ultimately controlled by the same party (i.e. TPG) before and after the business combination, and that control is not transitory. Accordingly, the Company adopts merger accounting to consolidate the TPG Subsidiaries in the Enlarged Group by reference to Hong Kong Accounting Guideline 5 at the carrying amounts of their respective assets and liabilities as originally included in the consolidated financial statements of TPG.

   For the acquisition of these TPG Subsidiaries, CTIH will reduce the Consideration Shares being issued amounting to HK$82,822,000 based on the Issue Price of HK$15.39.

	HK$'000
Reduction of consideration due to TPG for the Transactions	82,822
Share capital of TPG subsidiaries to be eliminated	68,149
Merger reserve	150,971

9. The TPG Target Assets included in Tranche C with amounts being extracted from the management accounts of TPG, include (i) various real estate properties with carrying amount of approximately HK$242,096,000, (ii) certain electronic equipment with carrying amount of approximately HK$347,000, (iii) amounts due from group companies with carrying amount of approximately HK$4,897,000 and other debtors with carrying amount of approximately HK$250,000. The TPG Target Assets are to be acquired by CTIH by issuing 14,499,870 Consideration Shares to TPG. TPG(HK) will acquire these Consideration Shares from TPG at Issue Price of the Framework Agreement at HK$15.39, which will be reflected as an amount due to TPG of HK$223,149,000. The difference of HK$24,441,000 between the consideration amount and the carrying amount of Target Assets is accounted for as capital reserve and represents the fair value change of investment properties and exchange difference of the TPG Target Assets. The impact of adjustment on non-controlling interest is being taken into account in the Pro Forma Adjustment 13.

10. As mentioned above, based on the notice dated 11 September 2013 received from TPG by TPG(HK), and the Board of Directors' minutes of both TPG and TPG(HK) dated 24 September 2013 approving such arrangement, out of this aggregate net increase of HK$11,284,774,000 in amount payable by TPG(HK) to TPG, arising from the acquisition of Consideration Shares issued by CTIH to TPG as illustrated in Pro Forma Adjustments 6, 8 and 9, HK$11,219,310,000 would be capitalised through issuing new shares by TPG(HK) to TPG. Therefore, amount payable by TPG(HK) to TPG of HK$11,219,310,000 is further adjusted from amount due to group companies to share capital.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

11. Certain investment properties of a subsidiary of CTIH with carrying amounts of approximately HK$328,606,000 rented out to TPG Subsidiaries are reclassified as property and equipment with carrying amounts of approximately HK$194,973,000, after taking into account the reversal of accumulated fair value appreciation of HK$125,146,000, based on independent properties valuation result, and recognition of accumulated depreciation of HK$8,487,000, extracted from the management account of the subsidiary, from the date when the properties first became held for own use within the Enlarged Group up to 30 June 2013. The net impact of the fair value reversal of investment properties and the recognition of the accumulated depreciation expense of the properties after the date of reclassification and the related deferred tax liabilities impact of HK$33,408,000 based on the statutory tax rate would be debited to reserves of HK$51,908,000 and non-controlling interests of HK$48,317,000 accordingly.

12. Pro Forma Adjustment 12 represents elimination of inter-company amounts receivable and payable between the Group, TPG Subsidiaries and TPG Target Assets. Amounts due from group companies of HK$42,047,000, other debtors of HK$5,381,000, amounts due to group companies of HK$179,720,000 are eliminated. The net difference of HK$132,292,000 representing the impairment losses recognised previously on inter-company balances is adjusted to reserves.

13. Pro Forma Adjustment 13 represents adjustment of non-controlling interests and reserves. Details are set out below:

	Enlarged Group HK$'000
Non-controlling interests adjusted for:	
The acquisitions of TPL, TPI, TPAM and TPP by CTIH (note i)	1,692,309
The acquisitions of TPG Subsidiaries and TPG(HK) Subsidiaries by CTIH (note ii)	1,440,457
The acquisitions of TPG Target Assets and TPG(HK) Target Assets by CTIH (note iii)	(734,236)
Decrease of non-controlling interest shareholding in CTIH (note iv)	(2,224,851)
Reclassification of investment properties to property and equipment (note v)	(20,774)
	152,905

Notes:

(i) Adjustment is to account for the impact to non-controlling interests arising from the acquisitions of interests in TPL, TPI, TPAM and TPP by CTIH. Details are set out below:

	HK$'000
Non-controlling interests of TPL, TPI, TPAM and TPP acquired indirectly through CTIH (note)	5,364,892
Subsequent capital injection from TPG (note)	87,836
	5,452,728
Multiplied by	31.036%
	1,692,309

Note: Details are set out in Pro Forma Adjustment 6.

D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP - continued

Notes: - continued

(ii) After the group restructuring, TPG(HK) will indirectly hold 68.964% shares of TPG Subsidiaries and TPG(HK) Subsidiaries. Therefore, pro forma adjustment is required to account for the change in non-controlling interest in TPG Subsidiaries and TPG(HK) Subsidiaries. Details are set out below:

	HK$'000
Combined net assets of TPG Subsidiaries and TPG(HK) Subsidiaries as of 30 June 2013 (note)	5,735,431
Add: Impairment loss reversed on inter-company eliminations	473,474
Less: Non-controlling interests of non-wholly owned TPG Subsidiaries and TPG(HK) Subsidiaries	1,567,660
	4,641,245
Multiplied by	31.036%
	1,440,457

Note: The net assets of the TPG Subsidiaries and TPG(HK) Subsidiaries for the compilation of the combined net asset are extracted from respective management accounts.

(iii) Similar to note (ii) above, the amount adjusted is equal to aggregate of net target assets of TPG of HK$247,590,000 and net target liabilities of TPG(HK) of HK$2,613,345,000 multiplied by 31.036%, which is the non-controlling shareholding percentage in CTIH after the group restructuring.

(iv) Adjustment is to account for the impact of the change of the non-controlling interest in CTIH from 46.732% to 31.036% as a result of the group restructuring. The amount is equal to the net assets attributable to owners of CTIH of HK$14,174,640,000 as of 30 June 2013, multiplied by the change of shareholding percentage.

(v) Adjustment is to account for the impact on non-controlling interests of reclassification of certain investment properties to property and equipment upon the consolidation of CTIH by the Group and the consolidation of TPG Subsidiaries by the Enlarged Group. The amount is equal to the aggregate of: i) the net decrease in net assets arising from the reclassification of the properties held by a subsidiary of TPG(HK) multiplied by 31.036%, which is the non-controlling shareholding percentage in CTIH after the group restructuring, and ii) the net decrease in net assets arising from the reclassification of properties held by a subsidiary of CTIH mutiplied by the change of the non-controlling interest in CTIH from 46.732% to 31.036%.

ISSUER

China Taiping New Horizon Limited
171 Main Street
Road Town, Tortola VG1 110
British Virgin Islands

GUARANTOR

China Taiping Insurance Group (HK) Company Limited
22/F China Taiping Tower Phase I
8 Sunning Road
Causeway Bay
Hong Kong

FISCAL AGENT

Citicorp International Limited

55th Floor, One Island East
18 Westlands Road
Island East
Hong Kong

PAYING AGENT

Citibank, N.A. London Branch

1 North Wall Quay
Dublin 1
Ireland

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

LEGAL ADVISORS

To the Issuer and the Guarantor as to Hong Kong and English law
Mayer Brown JSM
16th-19th Floors, Prince's Building
10 Chater Road
Hong Kong

To the Issuer and the Guarantor as to British Virgin Islands law
Walkers
Suite 1501-1507, Alexandra House
18 Chater Road
Central
Hong Kong

To the Joint Lead Managers as to Hong Kong, English and US law
Herbert Smith Freehills
23rd Floor, Gloucester Tower
15 Queen's Road
Central
Hong Kong

To the Joint Lead Managers as to the PRC law
Jia Yuan Law Offices
F407-408 Ocean Plaza
158 Fuxing Men Nei Ave
Xicheng District
Beijing, China

INDEPENDENT AUDITOR OF THE GUARANTOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Admiralty, Hong Kong