

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. In so doing, these accounts have opted to adopt SSAP 9 (revised) “Events after the balance sheet date” and SSAP 14 (revised) “Leases”, which are mandatory for accounting periods beginning on or after 1 January 2001 and 1 July 2001, instead of SSAP 9 “Accounting for post balance sheet events” and SSAP 14 “Accounting for leases and hire purchase contracts” issued in 1984 and 1987 respectively. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“The Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Reorganisation and basis of preparation of accounts

The Company was incorporated in Hong Kong with limited liability on 18 February 2000 under the Hong Kong Companies Ordinance and through a reorganisation became the holding company of the Group on 26 May 2000. The Group has been treated as a continuing entity and accordingly the combined accounts have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 26 May 2000. The results of the Group for the years ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, where this is a shorter period. The combined balance sheet as at 31 December 1999 is a combination of the balance sheets of all the companies comprising the Group as at 31 December 1999. In the opinion of the directors, the resulting combined accounts give a more meaningful view of the results and state of the affairs of the Group as a whole.

All material intercompany transactions are eliminated on combination.

As the Company was incorporated on 18 February 2000, no comparative figures are presented in respect of the Company’s balance sheet.

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and land and buildings, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provision for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

### (d) Investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries are as follows:

- (i) Dated debt securities that the Group and/or the Company have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when the carrying amounts are not expected to be fully recovered and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities which are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (iii) Provisions against the carrying amount of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Investments in securities (Continued)

- (iv) All other securities are classified as other investments and stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (v) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

### (e) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
  - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value. It is the Group's policy to undertake valuations at intervals of not more than three years by independent professional valuers on an open market value basis. In the intervening years investment properties will be valued at open market value by independent professional valuers or appropriately qualified directors or executives within the Group on an annual basis; and
  - other property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation less any impairment in value as determined by the directors.
- (ii) Surpluses arising on revaluation are credited on a portfolio basis to the profit and loss account to the extent of any deficit arising on revaluation previously charged to the profit and loss account and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter charged to the profit and loss account.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Fixed assets (Continued)

- (iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets have not been discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Amortisation and depreciation

- (i) No depreciation is provided on freehold land and investment properties with an unexpired lease term of over 20 years.
- (ii) Depreciation is calculated to write off the cost or revalued amount of fixed assets over their estimated useful lives using the straight-line method, at the following rates per annum:

Leasehold land	over the unexpired term of lease
Buildings	2%
Furniture	20%
Fixtures	the shorter of 20% or over the unexpired term of lease
Computer equipment	20%
Motor vehicles	20%

### (g) Insurance liabilities

Estimates and assumptions have been made in arriving at the insurance liabilities comprising insurance funds and provision for outstanding claims. The directors continually review the estimates and make adjustments as necessary, but actual results can turn out significantly different from what is envisioned when these estimates are made.

#### (i) Insurance funds

Insurance funds represent the balance of net written premiums and related income over net claims paid and related acquisition costs in respect of open underwriting years of general insurance business. Acquisition costs comprise the expenses, both direct and indirect, of acquiring business. At the end of each accounting year, the adequacy of the amount of insurance funds to cover estimated liabilities is reviewed by the directors having regard to the future development of open underwriting years. For open underwriting years, no profits are recognised, but material deficiencies are recognised as soon as they are foreseen.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Insurance liabilities *(Continued)*

#### (ii) *Life assurance fund*

The proportion of retained life assurance premiums written in a year relating to the period of risk from 1 January in the following year to the subsequent date of expiry of policies is carried forward as a provision for unearned premiums after including commission received and making an allowance for commission paid.

#### (iii) *Provision for outstanding claims*

Provision for outstanding claims represents estimated liabilities relating to the closed underwriting years of general insurance business in respect of reported claims and claims incurred but not reported after deducting amounts recoverable from reinsurers. This provision, although not capable of precise assessment, is made in the light of available information and after taking into account the claims handling expenses.

### (h) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the approximate exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting exchange gains and losses are included in the profit and loss account.

The results of an overseas branch are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserve.

### (i) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

#### (i) Premiums and commission income

Premiums and commission income are recognised in the revenue account when the underwriting transactions are reported from cedants. Any underwriting transactions reported subsequent to the balance sheet date are included in the revenue account for the immediate following year.

#### (ii) Rental income from operating leases

Rental income receivable under operating leases is recognised on a straight-line basis over the terms of the respective leases.

#### (iii) Brokerage income

Brokerage income is recognised when the service is rendered.

#### (iv) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

#### (v) Interest income

- Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.
- Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at rates applicable.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Underwriting results

Revenue accounts in respect of non-life insurance business are prepared on the three-year fund accounting basis, under which, an account is maintained for each underwriting year in which premiums, claims, expenses and other relevant income and expenditure are recorded. Each underwriting year account is held open for two years, and at the end of third accounting year the revenue accounts are closed and the balances are transferred to the profit and loss account.

The revenue account in respect of life assurance business is prepared on an annual basis and is closed at the end of each accounting year and the balance is transferred to the profit and loss account.

### (l) Operating leases

Rentals payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

### (m) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advances.

### (o) Trust account

No account of assets held or liabilities incurred by the Group as trustee has been included.



# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Retirement costs

The Group operates a defined contribution retirement scheme and the contributions are charged to the profit and loss account as and when incurred.

### (q) Management expenses

Management expenses incurred for operating the business are allocated proportionately to the revenue accounts and profit and loss account based on the proportion of staff costs between underwriting and non-underwriting departments.

## 2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are the underwriting of treaty and facultative reinsurance of all classes of general business, including non-marine and marine, and certain classes of long term business. The Group also carries on reinsurance broking and, to support its reinsurance activities, holds security, money market and property investments.

Turnover represents gross premiums written and brokerage income.

	2000	1999
	\$	\$
<b>Gross premiums written</b>		
Non-life		
— Non-proportional	146,175,134	120,893,829
— Proportional	531,927,060	515,351,351
Life	5,350,363	3,885,795
	<u>683,452,557</u>	<u>640,130,975</u>
<b>Brokerage income</b>	7,591,722	4,183,342
	<u>691,044,279</u>	<u>644,314,317</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 2 TURNOVER (Continued)

An analysis of the Group's turnover by geographical locations of customers is as follows:

	2000 \$	1999 \$
Hong Kong and Macau	290,516,522	283,667,856
The People's Republic of China ("PRC") (other than Hong Kong and Macau)	60,570,473	43,521,766
Japan	57,607,210	65,239,618
Rest of Asia	143,389,321	123,995,409
Sub-total for Asia	<u>552,083,526</u>	<u>516,424,649</u>
Europe	98,926,310	95,339,214
North America	20,007,215	16,531,151
South America	14,056,142	10,090,767
Australia	4,204,777	3,546,816
Africa	1,766,309	2,381,720
	<u><b>691,044,279</b></u>	<u><b>644,314,317</b></u>

## 3 OTHER REVENUE

	2000 \$	1999 \$
Dividend income from listed securities	5,575,749	3,669,442
Dividend income from unlisted securities	—	40,000
Interest income from listed securities	44,899,505	39,459,929
Interest income from unlisted securities	8,374,747	8,593,573
Other interest income	24,883,233	24,665,250
Rental income	3,229,715	3,662,855
Others	559,899	289,996
	<u><b>87,522,848</b></u>	<u><b>80,381,045</b></u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 4 OTHER NET (LOSS)/INCOME

	2000 \$	1999 \$
Gains/(losses) on disposal of fixed assets	1,497,973	(53,568)
(Losses)/gains on disposal of investment properties	(782,563)	1,382,556
(Deficit)/surplus on revaluation of investment properties	(3,309,036)	300,000
Net realised and unrealised (losses)/gains on listed securities	(25,830,333)	62,263,317
Gains on disposal of unlisted securities	1,151,889	1,155,948
Recovery from losses on disposal of dated debt securities	20,852,155	—
Losses on disposal of dated debt securities	(17,761,405)	—
Amortisation of discounts of dated debt securities	11,847,760	12,950,851
Provision for diminution in value of held-to-maturity securities	—	(2,851,511)
Provision for diminution in value of unlisted investments	(4,127,000)	—
Others	8,646	135,012
	<u>(16,451,914)</u>	<u>75,282,605</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2000	1999
	\$	\$
Staff costs (other than retirement benefit costs)	19,853,816	20,799,342
Retirement benefit costs	1,163,052	1,217,304
Less: Amounts deferred and included in insurance funds	<u>(11,407,432)</u>	<u>(12,224,270)</u>
	<u>9,609,436</u>	<u>9,792,376</u>
Average number of employees	<u>62</u>	<u>61</u>
Interest expense	232	—
Auditors' remuneration	725,485	402,272
Depreciation	2,174,820	4,933,125
Operating lease charges: minimum lease payments		
— hire of properties	346,924	—
Net exchange losses	<u>14,917,810</u>	<u>2,289,034</u>

## 6 TAXATION

(a) Taxation in the combined profit and loss account represents:

	2000	1999
	\$	\$
Provision for Hong Kong Profits Tax for the year	6,586,447	—
Overprovision in respect of prior years	<u>(3,134,386)</u>	<u>—</u>
	3,452,061	—
Taxation outside Hong Kong	776,957	3,925,000
Deferred taxation ( <i>note 23(a)</i> )	<u>(3,144,171)</u>	<u>(633,000)</u>
	<u>1,084,847</u>	<u>3,292,000</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 6 TAXATION (Continued)

The provision for Hong Kong Profits Tax represents the Group's estimated Profits Tax liability calculated at the standard tax rate of 16% (1999: 16%) on its assessable profits from life and other insurance businesses except for its assessable profits from the business of reinsurance of offshore risks, which is calculated at one-half of the standard tax rate of 8% (1999: 8%).

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

### (b) Taxation in the balance sheets represents:

	<b>The Group</b>		<b>The Company</b>
	<b>2000</b>	1999	<b>2000</b>
	\$	\$	\$
Provision for Hong Kong Profits Tax for the year	<b>6,586,447</b>	—	—
Provisional Profits Tax paid	<b>(3,419,220)</b>	(183,258)	—
	<b>3,167,227</b>	(183,258)	—
Balance of Hong Kong Profits Tax provision relating to prior years	<b>1,879,578</b>	4,474,511	—
Taxation outside Hong Kong	<b>8,176,957</b>	6,659,000	—
	<b>13,223,762</b>	10,950,253	—
Amount of taxation payable expected to be settled after more than one year	<b>8,135,897</b>	7,400,000	—

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000 \$	1999 \$
Executive directors:		
— Fees	—	—
— Salaries and other emoluments	2,009,530	2,009,540
— Discretionary bonuses	1,922,000	220,000
— Retirement scheme contributions	251,334	251,334
	<u>4,182,864</u>	<u>2,480,874</u>
Non-executive directors:		
— Fees	200,000	—
— Salaries and other emoluments	—	—
— Discretionary bonuses	96,000	—
— Retirement scheme contributions	—	—
	<u>296,000</u>	<u>—</u>

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the heading "Directors' interests in shares" in the directors' report.

The remuneration of the directors is within the following bands:

\$	2000 Number of directors	1999 Number of directors
Nil — 1,000,000	7	4
1,000,001 — 1,500,000	1	2
1,500,001 — 2,000,000	1	—
	<u>1</u>	<u>—</u>

There were no amounts paid during the year (1999: \$Nil) to former directors in connection with their retirement from employment with the Group.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (1999: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (1999: three) individuals are as follows:

	<b>2000</b>	1999
	\$	\$
Salaries and other emoluments	<b>1,879,370</b>	1,981,617
Discretionary bonuses	<b>829,000</b>	435,103
Retirement scheme contributions	<b>232,083</b>	198,560
	<b><u>2,940,453</u></b>	<b><u>2,615,280</u></b>

The emoluments of the three (1999: three) individuals with the highest emoluments are within the following bands:

	<b>2000</b>	1999
\$	<b>Number of individual</b>	Number of individual
Nil -1,000,000	<b>2</b>	3
1,000,001 — 1,500,000	<b><u>1</u></b>	<b><u>—</u></b>

There were no amounts paid during the year (1999: \$Nil) to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation of loss of office.

## 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of \$42,406,724 which has been dealt with in the accounts of the Company.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 10 DIVIDENDS

	2000 \$	1999 \$
Proposed final dividend	<u>—</u>	<u>126,823,127</u>

The proposed final dividend for the year ended 31 December 1999 is a combination of final dividends of \$121,823,127 and \$5,000,000 proposed by China International Reinsurance Company Limited (“CIRe”) and SINO-RE Reinsurance Brokers Limited (“SINO-RE”) and payable to their then shareholders. In this connection, a total of \$85,823,127 was distributed as dividend in specie by CIRe. The remaining amount was paid by cash during the year.

Pursuant to the resolution of the meeting of directors on 9 April 2001, the directors recommended the payment of a final dividend of \$0.04 per ordinary share in respect of the year ended 31 December 2000. As a result of the early adoption of SSAP 9 (revised) “Events after the balance sheet date”, the proposed dividend is not recognised for the year ended 31 December 2000 in these accounts.

## 11 EARNINGS PER SHARE

### (a) Basic earnings per share

The companies comprising the Group underwent a reorganisation on 26 May 2000 to rationalise the Group’s structure in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (“The Stock Exchange”). Prior to the placing and public offer of 297,208,000 shares (including 118,882,000 shares offered by the then existing shareholders at the time of the public offer) on 29 June 2000, the number of ordinary shares of the Company was 670,842,000.

The calculation of basic earnings per share for 2000 is based on the combined profit attributable to shareholders for the year ended 31 December 2000 of \$117,729,644 divided by the weighted average number of 781,989,699 shares, assumed to be in issue during the year.

The calculation of basic earnings per share for 1999 is based on the combined profit attributable to shareholders for the year ended 31 December 1999 of \$101,893,294 divided by 670,842,000 shares in issue prior to the placing and public offer on 29 June 2000.



# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 11 EARNINGS PER SHARE (Continued)

### (b) Diluted earnings per share

The calculation of diluted earnings per share for 2000 is based on the combined profit attributable to shareholders of \$117,729,644 and the weighted average number of shares of 782,887,013 shares after adjusting for the effects of all dilutive potential shares.

There were no potential dilutive ordinary shares in issue during the year ended 31 December 1999.

### (c) Reconciliations

	<b>2000</b>
	<b>Number of</b>
	<b>shares</b>
Weighted average number of shares used in calculating basic earnings per share	<b>781,989,699</b>
Deemed issue of shares for no consideration arising from share options	<b>897,314</b>
	<hr/>
Weighted average number of shares used in calculating diluted earnings per share	<b><u>782,887,013</u></b>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 12 FIXED ASSETS

### (a) The Group

	Land and buildings \$	Furniture and fixtures \$	Computer equipment \$	Motor vehicles \$	Subtotal \$	Investment properties \$	Total \$
<b>Cost or valuation:</b>							
At 1 January 2000	143,041,447	7,963,396	7,406,188	647,000	159,058,031	126,850,000	285,908,031
Additions	—	3,440,750	610,462	—	4,051,212	1,977,297	6,028,509
Disposals	(2,547,015)	(42,200)	(31,882)	—	(2,621,097)	(2,648,261)	(5,269,358)
Deficit on revaluation	—	—	—	—	—	(3,309,036)	(3,309,036)
Exchange difference	(192,174)	—	8,019	—	(184,155)	—	(184,155)
At 31 December 2000	<u>140,302,258</u>	<u>11,361,946</u>	<u>7,992,787</u>	<u>647,000</u>	<u>160,303,991</u>	<u>122,870,000</u>	<u>283,173,991</u>
<b>Representing:</b>							
Cost	140,302,258	11,361,946	7,992,787	647,000	160,303,991	—	160,303,991
Valuation — 2000	—	—	—	—	—	122,870,000	122,870,000
	<u>140,302,258</u>	<u>11,361,946</u>	<u>7,992,787</u>	<u>647,000</u>	<u>160,303,991</u>	<u>122,870,000</u>	<u>283,173,991</u>
<b>Accumulated depreciation:</b>							
At 1 January 2000	78,633,980	7,680,478	6,177,088	647,000	93,138,546	—	93,138,546
Charge for the year	1,223,001	421,554	530,265	—	2,174,820	—	2,174,820
Written back on disposal	(197,374)	(38,680)	(30,245)	—	(266,299)	—	(266,299)
Exchange difference	(13,453)	—	8,700	—	(4,753)	—	(4,753)
At 31 December 2000	<u>79,646,154</u>	<u>8,063,352</u>	<u>6,685,808</u>	<u>647,000</u>	<u>95,042,314</u>	<u>—</u>	<u>95,042,314</u>
<b>Net book value:</b>							
At 31 December 2000	<u>60,656,104</u>	<u>3,298,594</u>	<u>1,306,979</u>	<u>—</u>	<u>65,261,677</u>	<u>122,870,000</u>	<u>188,131,677</u>
At 31 December 1999	<u>64,407,467</u>	<u>282,918</u>	<u>1,229,100</u>	<u>—</u>	<u>65,919,485</u>	<u>126,850,000</u>	<u>192,769,485</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 12 FIXED ASSETS (Continued)

### (b) The Company

	Furniture and fixtures \$
<b>Cost:</b>	
At 18 February 2000	—
Additions	1,799,383
At 31 December 2000	<u>1,799,383</u>
<b>Accumulated depreciation:</b>	
At 18 February 2000	—
Charge for the year	80,686
At 31 December 2000	<u>80,686</u>
Net book value:	
At 31 December 2000	<u><u>1,718,697</u></u>

### (c) The analysis of net book value of properties is as follows:

	The Group 2000 \$	1999 \$	The Company 2000 \$
In Hong Kong			
— Long leases	125,745,411	128,159,997	—
— Medium-term leases	13,000,693	13,100,000	—
Outside Hong Kong			
— Freehold	—	2,547,470	—
— Long leases	39,440,000	39,440,000	—
— Medium-term leases	5,340,000	8,010,000	—
	<u>183,526,104</u>	<u>191,257,467</u>	<u>—</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 12 FIXED ASSETS (Continued)

**(d) The following are details of the Group's properties held**

**for own use:**

	<b>Location</b>	<b>Lease term</b>	<b>Existing use</b>
1	Unit A, 29/F, United Centre, 95 Queensway, Admiralty, Hong Kong	Long	Commercial
2	Unit K, 17/F, World Tech Centre, 95 How Ming Street, Kwun Tong, Kowloon	Medium	Commercial

**for investment purposes:**

	<b>Location</b>	<b>Lease term</b>	<b>Existing use</b>
1	Flat F, 5/F, Mai Kei Industrial Building, 5 San Hop Lane, Tuen Mun, New Territories	Medium	Vacant
2	B4, 3 Kapok Path, Palm Springs Phase 1C, Yuen Long, New Territories	Medium	Residential
3	B4, 5 Kapok Path, Palm Springs Phase 1C, Yuen Long, New Territories	Medium	Residential
4	Flat 65, 16/F, Tower 11 and Car Park No. 82, Hong Kong Parkview, 88 Tai Tam Reservoir Road, Hong Kong	Long	Residential

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 12 FIXED ASSETS (Continued)

(d) The following are details of the Group's properties held (Continued)

for investment purposes: (Continued)

	Location	Lease term	Existing use
5	Flat 67, 17/F, Tower 11 and Car Park No. 188, Hong Kong Parkview, 88 Tai Tam Reservoir Road, Hong Kong	Long	Residential
6	Flat 65, 20/F, Tower 11 and Car Park No. 187, Hong Kong Parkview, 88 Tai Tam Reservoir Road, Hong Kong	Long	Residential
7	Unit A, 16/F, Wing Hang Insurance Building, 11 Wing Kut Street, Hong Kong	Long	Vacant
8	Unit B, 16/F, Wing Hang Insurance Building, 11 Wing Kut Street, Hong Kong	Long	Commercial
9	Unit C, 16/F, Wing Hang Insurance Building, 11 Wing Kut Street, Hong Kong	Long	Commercial
10	Unit A, 22/F, Wing Hang Insurance Building, 11 Wing Kut Street, Hong Kong	Long	Commercial
11	Units B and C, 22/F, Wing Hang Insurance Building, 11 Wing Kut Street, Hong Kong	Long	Commercial
12	Workshop E1, 3/F, Hang Fung Industrial Building Phase 1, 2G Hok Yuen Street, Kowloon	Medium	Industrial

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 12 FIXED ASSETS (Continued)

(d) The following are details of the Group's properties held (Continued)

for investment purposes: (Continued)

	Location	Lease term	Existing use
13	Units 101-104, 301-304, 502-504, 701, 703 and 704 of Xinxing Court, Units 103, 106, 1103 and 1104 of Xingui Court and Units 103, 104 and 902-904 of Xinying Court, P. & R. Times Mansion, Fuqiang Road, Futian District, Shenzhen, PRC	Long	Vacant
14	Units 2025-2030, Level 2, Luohu Commercial Plaza, Jianshe Road, Luohu District, Shenzhen, PRC	Medium	Commercial

(e) Investment properties of the Group were revalued at 31 December 2000 by an independent firm of surveyors, RHL Appraisal Limited, external professional valuers, on an open market value basis. The revaluation deficit of \$3,309,036 has been debited to the profit and loss account (note 4).

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 12 FIXED ASSETS (Continued)

- (f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five 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. The gross carrying amounts of investment properties of the Group held for use in operating leases were \$82,270,000 (1999: \$67,050,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2000 \$	1999 \$
Within 1 year	3,877,522	2,756,308
After 1 but within 5 years	1,981,355	1,987,102
	<u>5,858,877</u>	<u>4,743,410</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 13 INVESTMENTS IN SUBSIDIARIES

	<b>2000</b>
	<b>\$</b>
Unlisted shares, at cost	<b><u>33,542,008</u></b>

Details of the Company's subsidiaries at the date of this report are as follows:

Name of company	Place of incorporation and operation	Issued share capital	Attributable equity interest percentage		Principal activities
			Direct	Indirect	
China International Reinsurance Company Limited	Hong Kong	Ordinary	—	100	Reinsurance business
		\$180,000,000			
		Deferred	—	—	
		\$600,000,000			
SINO-RE Reinsurance Brokers Limited	Hong Kong	Ordinary	—	100	Insurance broking
		\$4,000,000			
		Deferred	—	—	
		\$1,000,000			
Quicken Assets Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$1	100	—	Property holding
Effectual Assets Limited	BVI	US\$20	100	—	Investment holding
Influential Assets Limited	BVI	US\$20	100	—	Investment holding

The Company was incorporated in Hong Kong with limited liability on 18 February 2000 under the Hong Kong Companies Ordinance and through a reorganisation became the holding company of the Group on 26 May 2000.



# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 13 INVESTMENTS IN SUBSIDIARIES (Continued)

In accordance with the as if basis of preparation, the Company's past interest in Sustainable Assets Limited ("SAL") has not been included in this report. SAL is a special purpose vehicle established to hold certain assets of CIRE totalling approximately \$126 million prior to the reorganisation on 26 May 2000. The interest in SAL was partly distributed to the then shareholders of CIRE in specie. The remaining interest in SAL was disposed of to CIRE's then shareholders at its carrying value.

As part of the reorganisation, the then ordinary share capital of \$600 million and \$1 million in CIRE and SINO-RE respectively were converted into non-voting deferred share capital. Holders of the non-voting deferred shares in CIRE or SINO-RE 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 deferred shares pari passu among themselves in proportion to their respective shareholdings.

## 14 INVESTMENTS IN SECURITIES

	<b>The Group</b>		<b>The Company</b>
	<b>2000</b>	1999	<b>2000</b>
	\$	\$	\$
Held-to-maturity debt securities, at amortised cost			
Listed:			
— in Hong Kong	<b>102,449,290</b>	68,799,004	—
— outside Hong Kong	<b>557,423,171</b>	575,592,321	—
	<b>659,872,461</b>	644,391,325	—
Less: Provision for diminution in value	<b>(1,087,164)</b>	(8,920,890)	—
	<b>658,785,297</b>	635,470,435	—
Unlisted	<b>163,883,603</b>	165,473,267	—
	<b>822,668,900</b>	800,943,702	—

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 14 INVESTMENTS IN SECURITIES (Continued)

	The Group 2000 \$	1999 \$	The Company 2000 \$
<b>Other investments</b>			
Listed debt securities, at market value			
— outside Hong Kong	111,280,735	54,418,000	28,118,610
Listed equity securities, at market value			
— in Hong Kong	155,025,621	117,748,917	15,200,000
— outside Hong Kong	28,085,283	25,601,578	—
Listed unit trusts and mutual funds, at market value			
— outside Hong Kong	23,464,015	36,325,689	—
Unlisted equity securities, at fair value	9,567,971	8,045,000	—
	<u>327,423,625</u>	<u>242,139,184</u>	<u>43,318,610</u>
	<u>1,150,092,525</u>	<u>1,043,082,886</u>	<u>43,318,610</u>
Market value of listed securities	<u>993,346,332</u>	<u>786,815,696</u>	<u>43,318,610</u>
Held-to-maturity securities maturing within one year	<u>97,358,441</u>	<u>94,726,359</u>	<u>—</u>

The unlisted held-to-maturity dated debt securities include bonds with amortised cost of \$12,169,717 (1999: \$51,641,927) issued by entities with AAA rating as assigned by Standard and Poor's as at 31 December 2000.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 14 INVESTMENTS IN SECURITIES (Continued)

The Group's unlisted equity securities include an investment of \$8,000,000 (1999: \$8,000,000), representing a 20% (1999: 20%) equity interest in Dragon Jade Industrial District Development (Shenzhen) Co., Ltd., a joint venture company established in the PRC engaged in the development and operation of an industrial property complex in Shenzhen, the PRC. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policies of that company and accordingly, the equity accounting method has not been adopted.

Debt securities are covered by a demand bond issued by an independent insurance company in Hong Kong in amount of \$40 million (1999: \$Nil) for any capital losses per annum. As at 31 December 2000, the Group is entitled to recover capital losses of \$20,852,155 (1999: \$Nil) under this demand bond as a result of debt restructuring of a debt issuer. The losses and the related recovery are included in the profit and loss account (note 4).

## 15 AMOUNTS DUE FROM/(TO) AN IMMEDIATE HOLDING COMPANY/ SUBSIDIARIES/RELATED PARTIES

Amounts due from/(to) an immediate holding company/subsidiaries/related parties are unsecured, interest-free and repayable on demand.

## 16 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2000	1999	2000
	\$	\$	\$
Amounts due from cedants and retrocessionaires	96,576,194	69,278,065	—
Deposits retained by cedants	112,143,943	136,640,505	—
Other debtors, deposits and prepayments	52,201,600	17,438,676	305,578
Loans and advances	44,697,624	22,770,726	—
	<u>305,619,361</u>	<u>246,127,972</u>	<u>305,578</u>

All of the trade and other receivables, apart from \$21,100,214 (1999: \$48,002,215) included in deposits retained by cedants, are expected to be recovered within one year.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 16 TRADE AND OTHER RECEIVABLES (Continued)

Amounts due from cedants and retrocessionaires include amounts due from related parties of \$18,319,984 (1999: \$16,885,545) which are trade related in nature.

Loans and advances are repayable with the following terms:

	2000 \$	1999 \$	Interest rate	Repayment term
Secured mortgage loans:				
— to staff members of the Group	111,148	15,341,233	3% to prime	20 years by instalments
— to a third party	—	2,599,493	prime + 0.5%	20 years by instalments
Unsecured loans:				
— to a related company	4,830,000	4,830,000	free	on demand
— to third parties	39,756,476	—	8%	10 years
	<u>44,697,624</u>	<u>22,770,726</u>		

Included in trade and other receivables are trade debtors with the following ageing analysis:

	The Group 2000 \$	1999 \$	The Company 2000 \$
Current	15,984,000	10,033,308	—
0 to 3 months overdue	44,529,690	31,198,742	—
More than 3 months overdue but less than 12 months overdue	31,258,348	18,046,911	—
More than 12 months overdue	4,804,156	9,999,104	—
	<u>96,576,194</u>	<u>69,278,065</u>	<u>—</u>

Debts are generally due within 90 days from the date of billing.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 17 LOANS TO OFFICERS

Loans to officers of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	Position	Term of loan	Maximum amount outstanding during the year	Balance at 31 December 2000	Balance at 1 January 2000
Ng Yu Lam Kenneth	Deputy chief executive officer	Secured on property, repayable by equal monthly instalments, interest-bearing at 3% and 4%	518,036	—	518,036
Lau Siu Mun Sammy	Executive director	Secured on property, repayable by equal monthly instalments, interest-bearing at 3% and 4%	2,788,141	—	2,788,141
Ng Wo Chung Joe	Assistant general manager	Secured on property, repayable by equal monthly instalments, interest-bearing at 3% and 4%	384,296	—	384,296

There was no interest due but unpaid nor any provisions made against these loans at 31 December 2000.

## 18 PLEDGED DEPOSITS AT BANK

The Group has pledged bank deposits of \$17,522,378 (1999: \$21,522,024) and \$Nil (1999: \$10,000,000) to banks to secure general banking facilities granted to the Group and related companies respectively.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 19 CASH AND CASH EQUIVALENTS

	<b>The Group</b>		<b>The Company</b>
	<b>2000</b>	1999	<b>2000</b>
	\$	\$	\$
Deposits with banks and other financial institutions with original maturity less than three months	<b>350,437,049</b>	193,826,314	<b>16,585,856</b>
Cash at bank and in hand	<b>89,115,517</b>	79,693,736	<b>362,958</b>
	<b><u>439,552,566</u></b>	<u>273,520,050</u>	<b><u>16,948,814</u></b>

## 20 INSURANCE FUNDS

### The Group

	<b>2000</b>	1999
	\$	\$
<i>General insurance business</i>		
Proportional	<b>298,410,100</b>	285,115,020
Non-proportional	<b>155,053,378</b>	227,722,712
	<b><u>453,463,478</u></b>	<u>512,837,732</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 21 PROVISION FOR OUTSTANDING CLAIMS

### The Group

	Claims reported \$	Incurred but not reported \$	2000 Total \$
Gross claims	591,282,614	195,523,687	786,806,301
Less: Reinsurers' share	<u>(128,092,969)</u>	<u>(25,513,994)</u>	<u>(153,606,963)</u>
	<u><b>463,189,645</b></u>	<u><b>170,009,693</b></u>	<u><b>633,199,338</b></u>

Represented by:

General insurance business			
— Proportional	239,061,484	61,622,973	300,684,457
— Non-proportional	<u>224,128,161</u>	<u>108,386,720</u>	<u>332,514,881</u>
	<u><b>463,189,645</b></u>	<u><b>170,009,693</b></u>	<u><b>633,199,338</b></u>

	Claims reported \$	Incurred but not reported \$	1999 Total \$
Gross claims	492,204,237	298,910,221	791,114,458
Less: Reinsurers' share	<u>(98,284,506)</u>	<u>(6,681,478)</u>	<u>(104,965,984)</u>
	<u><b>393,919,731</b></u>	<u><b>292,228,743</b></u>	<u><b>686,148,474</b></u>

Represented by:

General insurance business			
— Proportional	203,304,768	69,620,722	272,925,490
— Non-proportional	<u>190,614,963</u>	<u>222,608,021</u>	<u>413,222,984</u>
	<u><b>393,919,731</b></u>	<u><b>292,228,743</b></u>	<u><b>686,148,474</b></u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 22 TRADE AND OTHER PAYABLES

	<b>The Group</b>		<b>The Company</b>
	<b>2000</b>	1999	<b>2000</b>
	\$	\$	\$
Amounts due to cedants and retrocessionaires	<b>21,086,971</b>	27,503,729	—
Deposits retained from retrocessionaires	<b>11,770,867</b>	23,921,424	—
Other creditors, accrued charges and temporary receipts	<b>11,166,888</b>	20,938,272	<b>2,471,370</b>
Proposed dividend	—	41,000,000	—
	<u><b>44,024,726</b></u>	<u>113,363,425</u>	<u><b>2,471,370</b></u>

All of the trade and other payables are expected to be settled within one year.

Amounts due to cedants and retrocessionaires include amounts due to related parties of \$582,308 (1999: \$1,645,748) which are trade related in nature.

Included in trade and other payables are trade creditors with the following ageing analysis:

	<b>The Group</b>		<b>The Company</b>
	<b>2000</b>	1999	<b>2000</b>
	\$	\$	\$
Current	<b>135,000</b>	241,000	—
0 to 3 months overdue	<b>11,362,000</b>	17,213,000	—
More than 3 months overdue but less than 12 months overdue	<b>7,908,000</b>	3,740,000	—
More than 12 months overdue	<b>1,681,971</b>	6,309,729	—
	<u><b>21,086,971</b></u>	<u>27,503,729</u>	<u>—</u>



# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 23 DEFERRED TAXATION

(a) Movements on deferred taxation of the Group comprise:

	2000 \$	1999 \$
At 1 January	3,460,000	4,093,000
Transfer to the profit and loss account (note 6(a))	<u>(3,144,171)</u>	<u>(633,000)</u>
At 31 December	<u><u>315,829</u></u>	<u><u>3,460,000</u></u>

(b) Major components of deferred tax of the Group are set out below:

	2000		1999	
	Provided \$	Potential liabilities unprovided \$	Provided \$	Potential liabilities unprovided \$
Depreciation allowances in excess of related depreciation	—	342,776	—	191,496
Others	<u>315,829</u>	<u>—</u>	<u>3,460,000</u>	<u>—</u>
	<u><u>315,829</u></u>	<u><u>342,776</u></u>	<u><u>3,460,000</u></u>	<u><u>191,496</u></u>

Others represent deferred tax effects of timing differences arising from the revaluation of investment properties situated in the PRC.

(c) No provision for deferred taxation for the Company has been made as the effect of all timing differences is immaterial.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 24 MATURITY PROFILE

### (a) The Group

	Repayable on demand \$	3 months or less \$	1 year or less but over 3 months \$	5 years or less but over 1 year \$	After 5 years \$	Undated \$	Total \$
<b>2000</b>							
<b>Assets</b>							
Deposits at bank with original maturity more than 3 months	—	467,421	—	—	—	—	467,421
Deposits at banks and other financial institutions with original maturity less than 3 months	3,011,843	347,425,206	—	—	—	—	350,437,049
Certificates of deposit held	—	—	15,039,126	—	—	—	15,039,126
Debt securities (under held-to-maturity)	—	31,478,364	73,189,752	417,414,995	285,546,663	—	807,629,774
Debt securities (under other investments in securities)	—	—	—	8,151,000	19,967,610	83,162,125	111,280,735
	<u>3,011,843</u>	<u>379,370,991</u>	<u>88,228,878</u>	<u>425,565,995</u>	<u>305,514,273</u>	<u>83,162,125</u>	<u>1,284,854,105</u>
<b>1999</b>							
<b>Assets</b>							
Deposits at bank with original maturity more than 3 months	—	15,476,737	—	—	—	—	15,476,737
Deposits at banks and other financial institutions with original maturity less than 3 months	38,578,560	155,247,754	—	—	—	—	193,826,314
Certificates of deposit held	—	3,036,044	—	5,000,500	23,322,000	—	31,358,544
Debt securities (under held-to-maturity)	—	57,345,995	83,243,065	444,375,175	184,620,923	—	769,585,158
Debt securities (under other investments in securities)	—	—	—	—	—	54,418,000	54,418,000
	<u>38,578,560</u>	<u>231,106,530</u>	<u>83,243,065</u>	<u>449,375,675</u>	<u>207,942,923</u>	<u>54,418,000</u>	<u>1,064,664,753</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 24 MATURITY PROFILE (Continued)

### (b) The Company

	Repayable on demand \$	3 months or less \$	1 year or less but over 3 months \$	5 years or less but over 1 year \$	After 5 years \$	Undated \$	Total \$
<b>2000</b>							
<b>Assets</b>							
Deposits at banks and other financial institutions with original maturity less than 3 months	—	16,585,856	—	—	—	—	16,585,856
Debt securities (under other investments in securities)	—	—	—	8,151,000	19,967,610	—	28,118,610
	—	16,585,856	—	8,151,000	19,967,610	—	44,704,466

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 25 SHARE CAPITAL

	2000 \$	1999 \$
<b>Authorised:</b>		
2,000,000,000 ordinary shares of \$0.05 each	<u>100,000,000</u>	<u>801,000,000</u>
<b>Issued and fully paid:</b>		
893,748,000 ordinary shares of \$0.05 each	<u>44,687,400</u>	<u>601,000,000</u>

All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

- (a) The 1999 comparative amounts represent the combined issued share capital of the companies comprising the Group as at 31 December 1999 on the basis set out in note 1(b).
- (b) The Company was incorporated in Hong Kong on 18 February 2000 under the Hong Kong Companies Ordinance. As at the date of incorporation of the Company, its initial authorised share capital was 1,000 shares of \$1.00 each. On 18 February 2000, 2 shares were allotted, issued and fully paid at par. Pursuant to a meeting of the directors on 23 March 2000, 98 shares of \$1.00 each were allotted, issued and fully paid at par.
- (c) Pursuant to a written resolution of all the shareholders of the Company on 24 May 2000,
- (i) each of the then existing shares of \$1.00 each in the share capital of the Company was divided into 20 shares of \$0.05 each; and
  - (ii) the authorised share capital of the Company was increased from \$1,000 to \$100,000,000 by the creation of an additional 1,999,980,000 shares of \$0.05 each, ranking pari passu with the existing shares of the Company.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 25 SHARE CAPITAL (Continued)

- (d) Pursuant to a meeting of directors on 26 May 2000, the Company allotted and issued an aggregate of 335,420,000 shares of \$0.05 each to China Insurance H.K. (Holdings) Company Limited (“CIHK”) and The Ming An Insurance Company (Hong Kong), Limited (“Ming An”), the Company’s shareholders, as consideration for the acquisition of the entire issued share capital of Effectual Assets Limited now comprising the Group.

Pursuant to a meeting of directors on 26 May 2000, the Company allotted and issued an aggregate of 335,420,000 shares of \$0.05 each to CIHK and Ming An, the Company’s shareholders, as consideration for the acquisition of the entire issued share capital of Influential Assets Limited now comprising the Group.

- (e) On 29 June 2000, an aggregate of 178,326,000 newly issued shares together with 118,882,000 shares held by the then existing shareholders were offered for subscription at a price of \$1.43 per share upon the listing of the Company’s share on The Stock Exchange. The Group raised approximately \$231,166,322 (including interest income) net of related expenses from the offer.
- (f) Pursuant to the over-allotment option granted by the Company to the global coordinator, BNP Prime Peregrine Securities Limited, as stated in the prospectus of the Company dated 20 June 2000, the global coordinator exercised the option on 14 July 2000, which resulted in an additional issue of 44,580,000 shares of the Company. The Group raised approximately \$63,749,000 from this issue. The additional shares issued represented approximately 5% of the Company’s enlarged issued share capital immediately after the share offer and the exercise of the over-allotment option.

- (g) Share option scheme

Pursuant to a written resolution passed on 7 November 2000, a share option scheme for employees was approved and the directors may, at their discretion, invite any employee or director of the Group to take up options to subscribe for shares of the Company at a price to be determined by the board which will not be less than 80 per cent of the average closing prices of the shares of the Company on The Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal amount 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued pursuant to the scheme.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 26 RESERVES

### (a) The Group

	Share premium \$	Retained profits \$	Total \$
At 1 January 2000	—	(57,153,441)	(57,153,441)
Shares issued	282,571,108	—	282,571,108
Acquisition of subsidiaries	567,458,312	—	567,458,312
Profit for the year	—	117,729,644	117,729,644
At 31 December 2000	<u>850,029,420</u>	<u>60,576,203</u>	<u>910,605,623</u>

Share premium arising from acquisition of subsidiaries represents the minimum amount required to be transferred to the share premium account under section 48D of the Hong Kong Companies Ordinance upon the acquisition of Effectual Assets Limited and Influential Assets Limited by issuing shares as consideration. This amount represents the excess of consideration over the nominal value of shares issued after taking the merger relief under section 48D of the Hong Kong Companies Ordinance into account.

### (b) The Company

	Share premium \$	Retained profits \$	Total \$
At 18 February 2000	—	—	—
Shares issued	282,571,108	—	282,571,108
Profit for the year	—	42,406,724	42,406,724
At 31 December 2000	<u>282,571,108</u>	<u>42,406,724</u>	<u>324,977,832</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 27 NOTES TO THE COMBINED CASH FLOW STATEMENT

### (a) Reconciliation of profit from ordinary activities before taxation to net cash outflow from operating activities

	2000 \$	1999 \$
Profit from ordinary activities before taxation	118,814,491	105,185,294
Interest charges	232	—
Interest income	(78,157,485)	(72,718,752)
Dividend income from investments	(5,575,749)	(3,709,442)
Recovery from losses on disposal of dated debt securities	(20,852,155)	—
Depreciation	2,174,820	4,933,125
(Gains)/losses on sales of fixed assets	(1,497,973)	53,568
Losses/(gains) on disposal of investment properties	782,563	(1,382,556)
Deficit/(surplus) on revaluation of investment properties	3,309,036	(300,000)
Net realised and unrealised losses/(gains) on listed and unlisted securities	24,678,444	(63,419,265)
Losses on disposal of dated debt securities	17,761,405	—
Amortization of discounts of bonds	(11,847,760)	(12,950,851)
Provision for diminution in value of held-to-maturity securities	—	2,851,511
Provision for diminution in value of unlisted investments	4,127,000	—
Provision written back on diminution in value of land and buildings	—	(11,716,046)
Increase in trade and other receivables	(7,739,887)	(11,885,395)
(Decrease)/increase in trade and other payable	(28,338,699)	24,987,099
Decrease in amount due from related parties	69,311,378	—
Increase in amount due to an immediate holding company	4,000	—
Decrease in provision for outstanding claims	(52,949,136)	(2,602,982)
Increase/(decrease) in life assurance fund	657,683	(263,650)
(Decrease)/increase in insurance funds	(59,374,254)	37,997,979
Exchange losses/(gains)	12,036,238	(380,438)
Net cash outflow from operating activities	<u>(12,675,808)</u>	<u>(5,320,801)</u>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 27 NOTES TO THE COMBINED CASH FLOW STATEMENT (Continued)

### (b) Non-cash transactions

#### (i) Share swap

Pursuant to a meeting of directors on 26 May 2000, the Company allotted and issued an aggregate of 670,840,000 shares of \$0.05 each to CIHK and Ming An as consideration for the acquisition of the entire issued share capital of Effectual Assets Limited and Influential Assets Limited. No cash was received in respect of such acquisition.

#### (ii) Asset swap

Pursuant to the debt restructuring programme of Guangdong Enterprises (Holdings) Limited ("GDE"), the Company's dated debt securities issued by GDE with carrying value of \$86,360,812 was exchanged for short term receivables, loans, dated debt securities, unlisted and listed equity securities totalling \$63,387,845. No cash was received in respect of such exchange. The shortfall net of provision was recognised in the profit and loss account as losses on disposal of dated debt securities.

#### (iii) Dividend in specie

On 26 May 2000, as part of the Group's restructuring plan in anticipation of its listing on The Stock Exchange, certain assets of CIRe totalling \$125,823,127 were injected into a newly established wholly owned subsidiary as capital contribution. 68% of CIRe's equity interest in the then wholly owned subsidiary company of \$85,823,127 was distributed as dividend in specie. The remaining equity interest of \$40,000,000 was disposed of to the then shareholders of CIRe at its carrying value.



# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 28 COMMITMENTS

At 31 December 2000, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2000</b>	1999
	<b>\$</b>	<b>\$</b>
Within 1 year	<b>1,877,940</b>	—
After 1 year but within 5 years	<b>1,327,610</b>	—
	<b><u>3,205,550</u></b>	<b><u>—</u></b>

The Group leases a number of properties under operating leases which run for an initial period of two years, with an option to renew the leases when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 29 CONTINGENT LIABILITIES

As at 31 December 2000, there was no outstanding litigation, other than in respect of the Group's reinsurance business.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 30 CONNECTED TRANSACTIONS

The following is a summary of significant transactions entered into between the Group and its related companies during the year:

	<i>Note</i>	<b>2000</b>	1999
		<b>\$</b>	<b>\$</b>
<b>Recurring transactions</b>			
Business ceded by related companies:			
Gross premiums written		<b>147,601,984</b>	122,910,595
Commission expenses		<b>38,453,912</b>	27,359,591
Business retroceded to related companies:			
Outward retrocession premiums		<b>1,885,229</b>	5,208,542
Commission income		<b>1,132,784</b>	2,017,933
Interest income on			
Loans to directors and senior management	<i>(i)</i>	<b>63,602</b>	147,961
Loans to related companies	<i>(ii)</i>	<b>1,068,232</b>	6,324,079
Premium deposits		<b>436,102</b>	133,861
EC Pool	<i>(iii)</i>	<b>1,372,783</b>	3,320,699
Insurance brokerage income	<i>(iv)</i>	<b>54,145</b>	132,908
Securities brokerage fee	<i>(v)</i>	<b>633,174</b>	456,553
Service fee income	<i>(iii)</i>	<b>559,899</b>	582,520
Contribution to retirement scheme	<i>(vi)</i>	<b>1,163,052</b>	1,217,304
Retirement scheme management fee	<i>(vi)</i>	<b>36,078</b>	34,000
Travel agency services fee paid	<i>(vii)</i>	<b>101,956</b>	106,266
Insurance expenses covering business risk	<i>(viii)</i>	<b>170,348</b>	175,594
<b>Non-recurring transactions</b>			
Guarantees made for related companies	<i>(xii)</i>	<b>—</b>	<b>16,000,000</b>

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 30 CONNECTED TRANSACTIONS (Continued)

*Notes:*

- (i) CIRE had mortgage loans to certain directors and senior management of the Group. No loan balance was outstanding as at 31 December 2000 (1999: \$3,690,473). The mortgage loans were fully secured by properties. Interest under the above arrangements was charged at a fixed rate of 3% to 4% per annum. All loans granted and interest accrued were immediately due and payable on the termination of the employment of the relevant directors and senior management of the Group.
- (ii) CIRE has made loans to certain subsidiary companies of the major shareholders of the Group with interest rate charged in a range of 4% to 11% per annum. No loan balance was outstanding as at 31 December 2000 (1999: \$Nil).
- (iii) Certain related insurance companies of the Group ceded their Employees' Compensation and Employer's Liability business under an excess-of-loss reinsurance treaty to an insurance pool ("EC Pool") in which CIRE has a 15% participation on a quota share basis. CIRE has been appointed as administrator of the pool and receives a service fee of 1% of the inward reinsurance premiums written by the pool. The pool arrangement has ceased with effect from 1 April 2000.
- (iv) SINO-RE provided insurance broking services to and received brokerage fees for the services rendered from certain related insurance companies of the Group.
- (v) The Group has entered into agreements with a related securities company, which is a subsidiary company of the major shareholder of the Group, in relation to securities broking service provided. Securities broking fees are charged at a fixed rate of 0.25% of the securities value.
- (vi) Employees of the Group participated in a defined contribution retirement scheme managed by a related life insurance company of the Group who charges a management fee for the services rendered.
- (vii) A subsidiary company of the major shareholder of the Group provided travel agency services to the Company and the Group on a regular basis and charges a fee for the services rendered.
- (viii) The Group entered into a number of insurance policies with a subsidiary company and certain related companies of the major shareholders of the Group to cover their business risk in relation to fire, property, vehicle, personal accident, workmen compensation, group life and medical, electronic equipment and professional indemnity.
- (ix) CIRE and other related companies established Dragon Jade Industrial District Development (Shenzhen) Co., Ltd., a wholly foreign-owned joint venture enterprise pursuant to the relevant rules and regulations of the PRC applicable to enterprises with foreign investment to develop and operate an industrial property complex in Shenzhen, the PRC in 1992 in which CIRE has a 20% equity interest.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 30 CONNECTED TRANSACTIONS (Continued)

Notes: (Continued)

- (x) CIHK, being the major shareholder of the Group, is the current owner of the China Insurance logo. Pursuant to a non-exclusive licence agreement entered into between CIHK and the Group, the Group has obtained the right to use such logo for an indefinite term at no consideration.
- (xi) CIRE made an unsecured loan to a company which was jointly established by certain related parties of the Group. The loan is interest-free and for an indefinite period. The outstanding balance as at 31 December 2000 was \$4,830,000 (1999: \$4,830,000).
- (xii) CIRE provided guarantees to secure general banking facilities granted to subsidiary companies of the major shareholder of the Group and pledged a bank deposit of \$10,000,000 as at 31 December 1999 as collateral. Subsequent to 31 December 1999, such guarantees were cancelled and the related pledge was released. As a result, no such guarantees were outstanding as at 31 December 2000 in this regard.
- (xiii) As part of the reorganisation as stated in note 1(b), certain assets of the Group were disposed of to the shareholders of the Group and a subsidiary company of the major shareholder of the Group at their carrying values totalling \$69,303,746. As at 31 December 1999, the unsettled balances in relation to the disposal were \$69,303,746 which have been subsequently settled on 2 June 2000. As a result, no such balances were outstanding as at 31 December 2000 in this regard.

Apart from the above, there were no other material connected transactions entered into by the Group during the year.

In the opinion of the executive directors, the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business and have confirmed that the above transactions will continue in the future.

## 31 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company as at 31 December 2000 to be China Insurance Company, Limited which is established in the PRC.