HISTORY AND DEVELOPMENT

The development of our Group started with the incorporation of Ming An Hong Kong on 29 September 1949. At that time, Ming An Hong Kong's business mainly focused on marine cargo and fire insurance. Since its incorporation, Ming An Hong Kong has grown and expanded its business through diversifying into different types of general insurance products. Currently, our Group provides a comprehensive range of general insurance products, including motor, property, liability, marine and accident and health insurance.

From 1949 to 1999, PICC was the ultimate holding company of Ming An Hong Kong. PICC, founded in 1949, was the only insurance organisation in the PRC at that time. PICC remained the PRC's only active insurance company until the State Council began reforming the PRC insurance sector by introducing competition, initially by establishing domestic competitors and later by licensing foreign companies in selected markets. In 1999, PICC was restructured into four separate legal entities to further develop China's insurance market and encourage competition. As a result of that restructuring, the non-PRC insurance assets and the non-PRC insurance operations previously owned and managed by PICC came under the management of China Insurance Holdings, and China Insurance Holdings became the ultimate holding company of Ming An Hong Kong.

In 1979, Shenzhen was designated a special economic zone of the PRC. In 1982, the PBOC approved Ming An Hong Kong's application to establish a branch office in Shenzhen to carry out general insurance business and we commenced our operations in the PRC. In 1988, Ming An Hong Kong expanded its PRC operations by the establishment of a branch office in Haikou.

In 2000, China Insurance Group decided to accelerate the development of its general insurance business in Hong Kong by integrating the general insurance business of the Hong Kong branches of China Insurance Holdings and Tai Ping Insurance, two other members of the China Insurance Group, under Ming An Hong Kong. Following such integration, which was completed in March 2001, Ming An Hong Kong became the only company under the China Insurance Group carrying on direct general insurance business in Hong Kong. Ming An Hong Kong then undertook a series of reforms to reinforce management practices and establish a foundation for long term growth. These efforts included measures designed to standardise underwriting policies, enhance product mix, implement employee incentive structures and identify new business opportunities generated by the enlarged platform.

In May 2004, Ming An Hong Kong obtained CIRC approval to restructure its Shenzhen branch into a wholly owned subsidiary. Subsequently, Ming An China was established in January 2005 as a wholly foreign-owned enterprise, and the business of Ming An Hong Kong's Shenzhen branch was transferred to Ming An China. In May 2006, Ming An China obtained CIRC approval to be treated and regulated as a PRC insurance company for the purpose of its business activities. As a result of attaining such status, Ming An China has full access to the PRC general insurance market without geographic or operational restrictions. See also "Our Business — Overview".

On 30 June 2006, Ming An Hong Kong and China Insurance HK entered into the Cheung Kong S&P Agreement with Cheung Kong and a separate sale and purchase agreement with CIIH. Pursuant to such agreements, Cheung Kong purchased approximately 29% of the issued ordinary shares of Ming An Hong Kong and CIIH purchased approximately 4.9% of the issued ordinary shares of Ming An Hong Kong from China Insurance HK on completion of the sale in September 2006. Ming An Hong Kong thus became 66.1% owned by China Insurance HK, 29% by Cheung Kong and 4.9% by CIIH.

In preparation for the Listing, the Company was incorporated in the Cayman Islands and became the holding company of the Group on 29 November 2006 as a result of the Reorganisation. Further details of the Reorganisation are set out in "Our Reorganisation".

OVERVIEW

We are a leading general insurance company in Hong Kong providing a variety of general insurance products to a broad range of customers in Hong Kong and the PRC. We were incorporated in Hong Kong in 1949 and are a subsidiary of China Insurance Holdings. For 2005, we recorded total direct written premiums of HK$1,097 million of which 75.9% were attributable to our operations in Hong Kong and 24.1% were attributable to our operations in the PRC. For the same period, we recorded a combined ratio of 64.8%, underwriting profit of HK$249 million, profit before taxation of HK$534 million and profit after taxation of HK$570 million. For the six months ended 30 June 2006, we recorded direct written premiums of HK$568 million. Over the same period, we recorded a combined ratio of 72.3%, underwriting profit of HK$88 million, profit before taxation of HK$195 million and profit after taxation of HK$191 million. On 30 June 2006, we entered into a sale and purchase agreement with Cheung Kong whereby Cheung Kong acquired a 29% equity interest in us. We believe this strategic relationship will benefit our business in many ways, including new client relationships, enhanced investment expertise and new sources of premium income, particularly in the PRC and in the Hong Kong property sector.

In 2005, we ranked fourth among direct general insurers in Hong Kong as measured by gross written premiums, representing approximately 3.5% of gross written premiums in the Hong Kong general insurance market. We are one of the few general insurance companies in Hong Kong providing a comprehensive range of general insurance products, including motor, property, liability, marine and accident and health insurance. In addition, our long-standing operating history in Hong Kong has enabled us to develop significant market knowledge and an in-depth understanding of the general insurance market in Hong Kong, thereby enhancing our competitive advantage in terms of product development, risk assessment and maintaining underwriting profitability. For 2005, our Hong Kong operations recorded net earned premiums of HK$586 million with a combined ratio of 60.1%. For the six months ended 30 June 2006, our Hong Kong operations recorded net earned premiums of HK$259 million and a combined ratio of 68.7%. In Hong Kong, our four leading product lines are marine, property, liability and motor insurance, representing 24.3%, 23.8%, 22.1% and 21.6%, respectively, of our Hong Kong direct written premiums for the six months ended 30 June 2006.

Expansion of our operations in the PRC represents our core growth strategy. We have principally conducted operations in the PRC in Shenzhen and Haikou during the Track Record Period. We believe we were the first general insurance company incorporated outside the PRC to establish a physical presence in the PRC with our Shenzhen branch in 1982. In May 2004, the CIRC approved the transformation of Ming An Hong Kong's Shenzhen branch into Ming An Hong Kong's wholly owned subsidiary, Ming An China. After receiving and pursuant to the CIRC's approval, Ming An China assumed all of the assets and liabilities as well as the outstanding insurance policies of Ming An Hong Kong's Shenzhen branch. In May 2006, we believe we became the first and only general insurance company incorporated outside the PRC with a PRC subsidiary to receive CIRC approval to be regulated as a PRC insurance company. Although Ming An China is currently a wholly foreign-owned enterprise, with CIRC approval, Ming An China is permitted to engage in the general insurance business in the PRC without the geographic or operational restrictions imposed on companies lacking such approval. Before such approval was granted, as a foreign-invested insurance company, we were prohibited from conducting certain statutory insurance business activities, such as third-party liability insurance for motor vehicles, liability insurance for public transport vehicles and liability insurance for drivers of vehicles for commercial use and carriers in accordance with China's WTO commitment in respect of insurance industry. In addition, only domestic insurance companies are permitted to engage in compulsory traffic accident liability insurance business for motor vehicles pursuant to the "Regulations for Compulsory Traffic Accident Liability Insurance of Motor Vehicles" promulgated by the State Council on 21 March 2006. For 2005, our PRC operations recorded net earned premiums of HK$120 million and a combined ratio of 87.5%. As of and for the six months ended 30 June 2006, our PRC operations recorded net earned premiums of HK$59 million and a combined ratio of 88.1%. In the PRC, our primary product lines are property and motor insurance, representing 60.3% and 25.8%, respectively, of our PRC direct written premiums for the six months ended 30 June 2006.

We distribute our products in Hong Kong and the PRC through a multi-channel distribution network of intermediaries, including agents, brokers, direct sales and financial institutions. For the six months ended 30 June 2006, these four channels contributed 35.1%, 43.2%, 14.7% and 7.0%, respectively, of our direct written premiums. In Hong Kong, we operate from our headquarters and in the PRC we operate through the headquarters of Ming An China, three branches and six sub-branches. As of 30 June 2006, we distributed our general insurance products through a network of approximately 4,208 agents, 333 brokerage firms, 134 internal sales personnel and 34 financial institutions. In addition, as of 30 June 2006, we maintained an experienced team of 53 specialised insurance professionals in Hong Kong engaged in underwriting, claims management, risk management and product development. In 2006, Standard & Poor's Ratings Services affirmed our financial strength rating of "BBB" with a positive outlook.

OUR COMPETITIVE STRENGTHS

We believe we are uniquely positioned as one of the leading general insurance companies in Hong Kong with the ability and regulatory approvals necessary to provide general insurance products nationwide in the PRC. Our competitive strengths include:

Leading market position in Hong Kong

According to the Commissioner of Insurance in Hong Kong, we have, in each of the past nine years, been ranked among the top-five general insurance companies in Hong Kong as measured by gross written premiums. In 2005, we ranked fourth among direct general insurers as measured by gross written premiums. Our long-standing history in Hong Kong has enabled us to develop significant market knowledge and an in-depth understanding of the general insurance market in Hong Kong. Moreover, we believe we are well-known in the Hong Kong insurance industry by intermediaries and other insurance companies.

We value the long-term relationships we have fostered with businesses in Hong Kong. In addition to maintaining and growing our diversified commercial customer base, we have implemented a series of initiatives to grow our personal client base. In 2005, we established a new division dedicated to expanding our product distribution through banks and life insurance companies. We have signed product distribution agreements with major banks and life insurers, which we believe will greatly facilitate our product distribution through their extensive agent and broker networks in Hong Kong. Our established Hong Kong presence has historically provided a stable earnings stream for our operations.

In addition, we have established and maintained strong relationships with several Hong Kong, PRC and international reinsurers. We believe such access to reinsurance allows us to reduce our risk exposure and to leverage our underwriting capacity to access a larger customer base. We believe reinsurance plays a key role in our efforts to minimise losses and to strengthen our position in the Hong Kong general insurance market. We intend to leverage such experience, together with our relationship with China Insurance Holdings, to capture expansion opportunities in the PRC.

Unique dual HK-PRC status and fast-growing PRC operations

As a leading Hong Kong general insurer, we have a large number of customers to serve as a base for our expansion in the PRC. We believe our extensive operating experience in the comparatively developed Hong Kong insurance market provides a solid foundation for our business development in the PRC. We send experienced Hong Kong managers to assist our PRC operations, use our Hong Kong training facilities to develop the skills of our PRC employees and provide Ming An China with our Hong Kong risk management models. In addition, our established Hong Kong presence has historically provided stable earnings, which we intend to use to supplement our PRC expansion.

In May 2006, the CIRC approved the PRC insurance company status of Ming An China for the purpose of its business activities. Ming An China's PRC insurance company status provides us full access to the PRC general insurance market without geographic or operational restrictions. Although substantially all of the previous restrictions on foreign-invested general insurers were removed in January 2003, as a result of the

PRC's accession to the WTO, we believe our PRC insurance company status provides us with several competitive advantages over foreign-invested general insurers. For example, foreign-invested general insurers are still restricted from engaging in mandatory third-party liability businesses, such as motor insurance, which represents a substantial portion of market premiums in the PRC. In addition, capital requirements for foreign general insurers seeking to establish PRC insurance company subsidiaries or open additional branches within the PRC are higher than those of companies having PRC insurance company status.

In addition, we believe we have a "first mover" advantage in the PRC general insurance market, where we have operated for more than 24 years and have developed a significant understanding of the operating environment and the needs of the local customer base. We believe our platform for expansion in the PRC is further strengthened by the status of our parent company, China Insurance Holdings, which is wholly owned by the State Council of the PRC, and through our established relationships with leading PRC companies and their affiliates with Hong Kong operations. We believe these factors contributed to the strong premium growth of our PRC operations in recent years, having recorded a CAGR of 21.1% between 2003 and 2005, compared to 17.9% for the industry.

Experienced and dedicated senior management and professionals

Our senior management team possesses extensive insurance industry experience in both Hong Kong and the PRC. Their proven ability to provide strategic direction, execute business initiatives and compete against leading international insurers is best evidenced by our successes in Hong Kong and the PRC. Several of our senior executives and directors have held positions at other large PRC insurance companies, possess in-depth knowledge of the PRC insurance industry and have extensive contacts with leading PRC companies and insurance professionals. We employ a team of highly qualified insurance professionals with extensive experience in underwriting, claims management, risk management and product development. We value our employees' well being and invest significant time and resources providing them with professional advancement opportunities through on-site training, seminars, classroom education and incentives upon receiving professional qualifications. As a result, we believe we have built a corporate culture that fosters professionalism and minimises employee turnover.

Strong value-creating strategic partner

On 30 June 2006, we entered into a sale and purchase agreement with Cheung Kong whereby Cheung Kong acquired a 29% equity interest in us. The Cheung Kong Group is a leading Hong Kong-based, multinational conglomerate. The Cheung Kong Group and its listed Hong Kong affiliates operate in 56 countries and employ approximately 230,000 staff worldwide. The combined market capitalisation of the Cheung Kong Group and its listed Hong Kong affiliates was HK$743 billion as of 15 November 2006, representing approximately 7% of the Stock Exchange's total market capitalisation at such date. We believe this strategic partnership validates the quality of our business. In addition, we believe this strategic partnership will benefit our business in many ways, including providing new client relationships, enhanced investment expertise and new sources of premium income, particularly in the PRC and in the Hong Kong property sector. The Cheung Kong Group has extensive general insurance needs internally and we believe it plans to enter into an agreement with us whereby Cheung Kong agrees to introduce its subsidiaries and associates for the purpose of entering into various general insurances agreements with us. In addition, we believe AMTD Risk Management Limited, AMTDD and AMTDFL, associates of Cheung Kong, plan to enter into agreements with us whereby they will include us on their list of insurers for referral/introduction and invite us to tender for their corporate clients, as well as provide telemarketing services to promote our insurance products.

OUR STRATEGY

We aim to strengthen our market leadership in Hong Kong's general insurance market and expand our presence in the PRC general insurance market through:

Expanding our distribution network and product offerings in the PRC

We plan to expand our presence in the PRC through a rapid branch network expansion, compelling product offerings, superior customer service and enhanced brand awareness. Since we received PRC insurance company status approval from the CIRC in May 2006, we have been able to conduct general insurance activities throughout the PRC without geographic or operational restrictions. Before such approval was granted, as a foreign-invested insurance company, we were prohibited from conducting certain statutory insurance business activities, such as third-party liability insurance for motor vehicles, liability insurance for public transport vehicles and liability insurance for drivers of vehicles for commercial use and carriers in accordance with China's WTO commitment in respect of insurance industry. In addition, only domestic insurance companies are permitted to engage in compulsory traffic accident liability insurance business in respect of motor vehicles pursuant to the "Regulations for Compulsory Traffic Accident Liability Insurance of Motor Vehicles" promulgated by the State Council on 21 March 2006.

We established a branch office in Guangdong in October 2006. Over the next two years, we intend to establish a presence in cities and provinces with sizable insurance markets, including Beijing, Shanghai, Jiangsu, Zhejiang, Shandong and Hebei, and later to expand into surrounding areas with significant potential for growth. Our expansion initiatives have been developed and will be closely monitored by our management team based in Hong Kong. Consistent with our current practice, underwriting, pricing, claims management and risk management of businesses generated from the newly established branches will initially be managed through varying levels of approval authority. As we expand our business in the PRC, we expect to establish regional headquarters to maintain such functions under a centralised framework and information technology platform. By utilising our existing business relationships with leading PRC companies, we aim to increase links with intermediaries, banks and life insurers and further develop our direct insurance and insurance brokerage capabilities. In addition, in October 2006 we received approval from the CIRC to prepare to establish a PRC subsidiary of Ming An China to carry out insurance brokerage activities in the PRC, which we expect would contribute to a larger customer base for our Ming An China operations.

We aim to distinguish our business from our competitors in the PRC by:

- adopting a centrally managed professional underwriting business model with well-trained insurance professionals and corporate governance integrity;
- focusing on personal insurance products, such as motor insurance for private vehicle owners, while expanding our marine and liability insurance segments, which represent areas in which we have particular expertise;
- creating an advanced information technology platform to enable cost-efficient operations; and
- targeting the fast-growing domestic and small- and medium-sized enterprise segments, as well as corporations and individuals in the PRC from Hong Kong, Macau, Taiwan and other regions outside the PRC.

Consistent with our strategy, we have entered into, and will continue to enter into, co-insurance arrangements with other PRC insurance companies (including Tai Ping Insurance, one of our connected persons) with a view to capturing additional growth opportunities in the PRC insurance markets and leveraging our underwriting capacity to underwrite larger insurance risks in the PRC. See "Relationship with China Insurance Group and Connected Persons — Relationship with the China Insurance Group — Excluded General Insurance Business".

While we will continue to distinguish our business from other insurance companies in the PRC, we believe continued co-operation with other insurance companies in the industry also helps accelerate the growth and development of our PRC business given the rapidly growing insurance market and our small market share in the PRC. In 2005, Ming An China held a PRC market share of 0.2%, whereas the top five insurance businesses in the PRC represented approximately 85% of the market share in terms of gross written premiums.

Continuing Hong Kong market penetration and leveraging our Hong Kong operations to grow our PRC business

We plan to leverage our presence in Hong Kong to increase profitability from our Hong Kong insurance operations. While the Hong Kong general insurance market is comparatively developed, we believe we have potential for growth in certain sectors, including health and accident insurance and property insurance. Moreover, we believe our strategic partnership with Cheung Kong will contribute to our Hong Kong business as well as developing new business opportunities through leveraging its extensive customer base. We are also considering additional distribution channels in Hong Kong, including the Internet, to sell our products.

We plan to utilise our Hong Kong operations to support our growth strategy in the PRC. We aim to meet the insurance needs of Hong Kong-based corporations with PRC operations by providing products and services that are compatible with those provided in Hong Kong. We also plan to generate higher and more stable long-term returns on our PRC premium income through access to the more developed Hong Kong capital markets, under the QDII scheme. Consistent with our current practice, we also plan to use our Hong Kong training facilities to enhance Ming An China's business and to contribute our Hong Kong risk assessment expertise. In addition, we plan to leverage our relationships with international reinsurance providers to reduce the risks associated with policies underwritten in the PRC.

Pursuing profitable growth and continuing stringent risk management and disciplined cost control

As we implement our expansion strategy in the Hong Kong and PRC insurance markets, we aim to maintain a strong focus on profitability. To help preserve long-term profits, we do not intend to engage in aggressive price competition in an attempt to maintain or increase market share from price sensitive customers attracted only by premium structure. Instead, we plan to focus on more profitable product offerings, such as marine insurance and accident and health insurance. We also aim to reduce costs by utilising alternative distribution channels, such as the Internet in Hong Kong, and by taking advantage of lower administrative expenses at our Shenzhen data centre. However, we are committed to remaining competitive in our commissions paid to key intermediaries in order to maintain long-term distribution relationships.

We plan to continue to monitor the risk profile of our insurance products by continuing to apply prudent actuarial assumptions for product development, pricing and claims reserving in an attempt to better predict and manage potential claims. We intend to continue to apply our Hong Kong risk management techniques and expertise to our PRC operations. We also aim to continue enhancing our authorisation system and internal monitoring control system to enforce underwriting and claims settlement practices at all levels of our operations. We believe the on-going improvement and strict enforcement of these risk management systems will enhance our ability to monitor and control our risk exposure and claims payments.

Attracting, retaining and training skilled employees

We believe the quality of our personnel has been a major driver behind our success in the Hong Kong general insurance market. Competition in the Hong Kong and PRC insurance markets for qualified and experienced employees is intense. Our primary strategy remains to train and develop high-quality professionals within our own organisation. We plan to continue to recruit university graduates in the PRC for training with Ming An China and, in some cases, at our Hong Kong headquarters. We believe this strategy will result in increased employee loyalty and higher employee retention. At the same time, we intend to identify and hire experienced professionals in Hong Kong and the PRC to meet our specific needs. For the managerial staff of our planned branches in the PRC, we intend to recruit local individuals and train them using our Hong Kong technical and professional standards. By blending these approaches, we believe we will be able to develop a leading class of professionals that is at the forefront of the Hong Kong and PRC general insurance markets.

PRODUCTS

Overview

We offer a broad range of general insurance products to our customers in Hong Kong and the PRC. The following table sets forth our direct written premiums by business segment for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
							(unaudited)			
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(HK$ in millions, except percentages)									
Motor	360	31.3%	370	32.8%	314	28.6%	153	25.4%	128	22.5%
Property	267	23.3	263	23.3	306	27.9	203	33.8	177	31.2
Liability	282	24.5	244	21.7	228	20.8	101	16.8	106	18.7
Marine	184	15.9	192	17.0	194	17.7	113	18.8	119	20.9
Accident and health	58	5.0	58	5.2	56	5.0	31	5.2	38	6.7
Total	**1,151**	**100.0%**	**1,127**	**100.0%**	**1,097**	**100.0%**	**601**	**100.0%**	**568**	**100.0%**

The following table sets forth our direct written premiums by geographic segment for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
							(unaudited)			
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(HK$ in millions, except percentages)									
Hong Kong	971	84.4%	924	82.0%	833	75.9%	442	73.5%	452	79.6%
PRC	180	15.6	203	18.0	264	24.1	159	26.5	116	20.4
Total	**1,151**	**100.0%**	**1,127**	**100.0%**	**1,097**	**100.0%**	**601**	**100.0%**	**568**	**100.0%**

The following table sets forth the expense, loss and combined ratios by geographic segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
Loss Ratio					
Hong Kong	62.9%	55.4%	19.8%	40.8%	8.9%
PRC	29.9	32.6	40.8	37.9	40.7
Total	**59.9%**	**52.2%**	**23.4%**	**40.4%**	**14.8%**
Expense Ratio					
Hong Kong	37.1%	42.0%	40.3%	39.9%	59.8%
PRC	41.8	36.8	46.7	37.9	47.5
Total	**37.5%**	**41.3%**	**41.4%**	**39.6%**	**57.5%**
Combined Ratio					
Hong Kong	100.0%	97.4%	60.1%	80.7%	68.7%
PRC	71.7	69.4	87.5	75.8	88.2
Total	**97.4%**	**93.5%**	**64.8%**	**80.0%**	**72.3%**

The combined ratio is the sum of the loss ratio and the expense ratio. The increase in percentage of either the loss ratio or the expense ratio will increase the combined ratio. Insurers having a combined ratio greater than 100% suffer an underwriting loss. For more information on the reasons for the changes in the above ratios, see "Financial Information — Results of Operations — Operating Ratios".

The following table sets forth the loss ratios for each of our business segments for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
Motor	11.6%	45.2%	41.3%	54.1%	7.6%
Property	40.7	21.1	38.0	47.8	(15.9)
Liability	144.2	99.3	(22.3)	31.3	37.3
Marine	41.9	38.7	23.8	19.2	22.9
Accident and health	43.6	34.7	28.3	41.4	29.6
Total	**59.9%**	**52.2%**	**23.4%**	**40.4%**	**14.8%**

Motor insurance

In Hong Kong, there are three main types of motor insurance products, namely, comprehensive motor insurance, motor third-party liability insurance, and motor third-party liability insurance with additional coverage for fire and theft. In the PRC, there are three main types of motor insurance products, namely, motor own damage insurance, motor third-party liability insurance and automobile road accident liability compulsory insurance.

Motor insurance is one of our leading insurance products as measured by direct written premiums. We ranked third in the Hong Kong motor insurance market with a market share of approximately 7.4% in 2005 according to the Office of the Commissioner of Insurance in Hong Kong. We recorded direct written premiums of HK$314 million from our motor insurance segment in 2005, representing 28.6% of total direct written premiums for 2005. Approximately 76.6% of direct written premiums from our motor segment for the six months ended 30 June 2006 were derived from Hong Kong, while approximately 23.4% were derived from our PRC operations. We have recorded underwriting profits for this segment for both of our Hong Kong operations and PRC operations for the past three financial years and for the six months ended 30 June 2006.

In Hong Kong, we sell motor insurance policies primarily for private and commercial vehicles, although the proportion of commercial vehicles has consistently decreased over the past several years. We do not underwrite insurance policies for motor vehicles we classify as "high-risk" as we believe the premiums typically do not justify the risk of such policies.

Our standard comprehensive motor insurance policy is usually for a one year term, and covers accidental damage caused to the insured vehicle by collision, fire, explosion, typhoon or mudslide, damage caused by theft of the insured vehicle and liability to third parties. In addition to our standard comprehensive motor insurance policy, we also offer third-party liability motor insurance on a stand-alone basis. In 2005, approximately 63.3% of our direct written premiums were derived from stand-alone third-party liability motor insurance policies, while 36.7% were derived from comprehensive motor insurance policies. Third-party liability policies are generally long-tail in nature with the settlement of claims averaging approximately three to five years. To determine premium rates for our motor insurance products, we consider factors such as the physical risk class of the insured vehicle by vehicle type, cylinder capacity and age of the vehicle and the age, claims history and other personal attributes of the insured driver.

We began offering motor insurance in the PRC through our Shenzhen branch in 1982. Since its establishment in 2005, we have offered motor insurance in Shenzhen through Ming An China. Ming An China is currently one of 22 insurance companies approved to underwrite Mandatory Motor Traffic Accident Liability Insurance in the PRC. For the six months ended 30 June 2006, we recorded HK$28 million in direct written premiums from motor insurance policies, representing 25.0% of total direct written premiums received by Ming An China during the period. Substantially all premiums received by our PRC motor insurance operations came from policies underwritten to corporate customers in Shenzhen. In future periods, we expect the growth of premiums from this segment to be driven primarily by the increasing use of motor vehicles in the PRC, as we expect the number of motor vehicles, and the potential demand for motor insurance in the PRC, to continue to rise as the PRC economy expands. We also expect our future premium income in the PRC to increase as we expand into other cities and regions. We believe the historical results of our motor insurance business in the PRC have been due to the fact that we employ sophisticated risk selection methodologies, together with third-party liability insurance in the PRC typically having a shorter tail and lower compensation level when compared to Hong Kong, which minimises potential negative loss developments in later years. In 2005, Ming An China's loss ratio for motor insurance was only 41.4%. We believe Ming An China's ability to maintain a loss ratio substantially lower than the industry is an indication of the effectiveness of our advanced pricing techniques and disciplined underwriting practices.

Property Insurance

We recorded direct written premiums of HK$306 million from our property insurance segment in 2005, representing 27.9% of total direct written premiums in 2005. We recorded direct written premiums of HK$177 million from our property insurance segment in the six months ended 30 June 2006, representing 31.2% of total direct written premiums for the same period. Growth in our property insurance business depends on the growth of commercial and business assets, which results from healthy economic growth, increased capital investment and a rise in personal disposable income. Approximately 47.7% of direct written premiums for property insurance in 2005 were derived from Hong Kong, while approximately 52.3% of total direct written premiums from the segment were derived from our PRC operations. With continued economic growth in the PRC, expansion of premiums from our property insurance segment in the PRC is one of our primary objectives. We have recorded underwriting profits for this segment for both our Hong Kong and PRC operations over the past three financial years and for the six months ended 30 June 2006.

Our property insurance segment includes fire insurance policies and other property insurance policies covering additional risks with respect to pecuniary loss, property management and construction. To determine premium rates for our property insurance products, we consider factors such as building type, use of property and claim history in respect of the insured and any related companies.

In Hong Kong, the majority of our property insurance policies relate to commercial properties. We also offer polices to Hong Kong and Taiwanese companies operating in the PRC through Ming An China. In the future, we expect premium growth from this segment will be driven primarily by increasing private home ownership in the PRC and our partnership with Cheung Kong. In 2005 and the six months ended 30 June 2006, loss ratios for our property insurance businesses in Hong Kong and the PRC were 38.0% and negative 15.9%, respectively.

Fire Insurance

Our fire insurance products include basic fire insurance, fire and allied perils insurance, property all-risks insurance and business interruption insurance, which provide cover for damage to building structures, fixtures and fittings, machinery, equipment, inventory and consequential loss. We recorded direct written premiums of HK$274 million from our fire insurance policies in 2005, representing 25.0% of our total direct written premiums and 89.5% of direct written premiums from our property insurance segment in 2005. Fire insurance is one of our main product lines in both Hong Kong and the PRC and represented approximately 82.2% and 96.3% of our 2005 total direct written premiums from our property segment from those two areas, respectively.

Other Property Insurance

Our other property insurance products include homeplan insurance, pecuniary loss insurance, commercial package insurance, property management insurance, property all-risks insurance and construction all-risks insurance. We recorded direct written premiums of HK$32 million from other property insurance policies in 2005, representing 2.9% of our total direct written premiums and 10.5% of direct written premiums from our property segment in 2005.

Marine Insurance

Our marine insurance products include cargo insurance, hull insurance and transport liability insurance. We recorded direct written premiums of HK$194 million from our marine insurance segment in 2005, representing 17.7% of our total direct written premiums in 2005. Substantially all of our marine insurance premiums were derived from Hong Kong. In 2005 and the six months ended 30 June 2006, loss ratios for our marine insurance businesses in Hong Kong and the PRC were 24.0% and 20.8%, respectively. We have recorded underwriting profits for this segment for both of our Hong Kong and PRC operations during each of the past two financial years and for the six months ended 30 June 2006.

Cargo Insurance

Our cargo insurance covers damage to, or loss of, cargo transported by sea, land, air or multimodal transit during transportation. Under our cargo insurance products, we cover sea, air, rail and highway transportation. We incorporate standard international policy guidelines, such as the Institute Cargo Clauses elaborated by The Institute of London Underwriters, into our international cargo policies. We recorded direct written premiums of HK$57 million from our cargo insurance line in 2005, representing 5.2% of our total direct written premiums and 29.4% of direct written premiums from our marine segment in 2005. In recent years, GDP growth in the PRC and increasing trade activities have led to higher volumes of freight traffic and have driven growth in the cargo insurance market. We expect this trend, together with our proportion of direct written premiums derived from the PRC market, to continue to grow in the future.

We offer open cover insurance contracts to our preferred customers with frequent needs for cargo insurance. Under such open cover insurance contracts, we provide the standard terms and premium rates in the contracts but leave the insured subject and the total insured amount open, subject to maximum insured amounts. Such open cover insurance contracts normally have a one-year term and customers are required to purchase coverage for all of their shipments during the period with an individual policy issued for each shipment. We base our premium rates for cargo insurance on the nature of the cargo, the type and age of the vessel, the port facilities and the conditions of insurance.

Hull Insurance

We are one of the few general insurers that offer hull insurance in Hong Kong. Hull insurance covers the loss of, or damage to, an insured vessel, including its hull and machinery, caused by certain insured risks, including fire, collision and grounding. We recorded direct written premiums of HK$107 million from our hull insurance line in 2005, representing 9.8% of our total direct written premiums and 55.2% of direct written premiums from our marine segment in 2005. We derived 97.2% of our direct written premiums in 2005 from hull insurance from Hong Kong, while 2.8% were from our PRC operations. Our premium rates for hull insurance depend on the type, age, tonnage and classification of the vessel, as well as the vessel's trading pattern, the nature of cargo to be carried, the insured value of the vessel, the conditions of insurance, and most importantly, the management of the vessel and the claims experience of the insured.

We anticipate that Hong Kong will enact a regulation requiring all vessels operating in Hong Kong waters to have third-party liability insurance. Currently, many PRC cargo ships are not insured. We believe our position as a premier general insurer operating in both Hong Kong and the PRC will allow us to capture the potential demand of PRC customers for third-party liability insurance in Hong Kong.

Transport Liability Insurance

With increased globalisation and the growing demand for just-in-time door-to-door deliveries, customers have an increasing need for more effective management of transportation logistics through the integration of all modes of transport under a single transportation document. Our transportation liability insurance is structured to cover risks at each stage of the transportation process, thus providing a comprehensive insurance solution in one customised product and eliminating the need to purchase separate coverage for different stages of the process, which can lead to coverage gaps and overlaps.

Typical coverage under a transportation liability insurance policy includes cargo liability coverage, coverage for errors and omissions and third-party liability coverage. We recorded direct written premiums of HK$26 million from our transportation liability insurance line in 2005, representing 2.4% of our total direct written premiums and 13.4% of direct written premiums from our marine segment in 2005.

To determine premium rates for transport liability insurance, we consider factors such as annual turnover of the insured, annual volume of the cargo involved, the mode of transport, the insured's status as principal or agent and the claims experience of the insured.

Liability Insurance

Our liability insurance segment consists of employees' compensation insurance in Hong Kong, employers' liability insurance in the PRC and public liability insurance. We recorded direct written premiums of HK$228 million from our liability insurance segment in 2005, representing 20.8% of our total direct written premiums in 2005. Customers for our liability insurance products primarily include corporations, government agencies and professional organisations in Hong Kong.

We sell substantially all of our liability insurance in Hong Kong. For the six months ended 30 June 2006, the loss ratio for our liability insurance business in Hong Kong was 34.9%. Consistent with industry experience, we have recorded underwriting losses in recent years for this business line. In 2005, we achieved underwriting profits from our liability insurance products and we expect to increase sales of these products in the PRC as growth in the liability insurance market in the PRC has been driven by the increasing sophistication of the PRC economy, the development of relevant laws and regulations and growing social awareness of legal rights. Due to the nascent stage of the liability insurance market in the PRC, we have taken a conservative approach to the development of our liability insurance business.

Employees' Compensation Insurance

Employees' compensation insurance is the most significant component of our liability insurance segment. Employees' compensation insurance is a product sold only in Hong Kong that covers bodily injury or death resulting from an accident or a disease contracted by an employee arising out of and in the course of employment. We recorded direct written premiums of HK$170 million from our employees' compensation insurance line in 2005, representing 15.5% of our total direct written premiums and 74.6% of direct written premiums from our liability insurance segment in 2005.

Employers' Liability Insurance

Employers' liability insurance is a product for the PRC market covering an employer's liability under the contract of employment to pay medical expenses and compensation for accidental death or bodily injury arising out of and in the course of employment. As the PRC statutory regime for employee compensation differs from Hong Kong, the specific risks covered and policy limits for our employers' liability insurance are different from our employees' compensation insurance. Unlike employees' compensation in Hong Kong, employers' liability insurance is not mandatory in the PRC and there is no common law liability. We recorded direct written premiums of HK$5 million from our employers' liability insurance line in 2005, representing 0.5% of our total direct written premiums and 2.2% of direct written premiums from our liability insurance segment in 2005. We have recorded underwriting profits for this business line for our PRC operations over the past three financial years and for the six months ended 30 June 2006.

Public Liability Insurance

Our public liability insurance policies provide indemnification to the insured for all sums which the insured becomes legally liable to pay as compensation for property damage or bodily injury, including related legal fees, costs and expenses. We recorded direct written premiums of HK$53 million from our public liability insurance line in 2005, representing 4.8% of our total direct written premiums and 23.2% of direct written premiums from our liability insurance segment in 2005. We have recorded underwriting profits for this business line for our Hong Kong operations during each of the past two financial years and for the six months ended 30 June 2006.

Accident and Health Insurance

Our accident and health insurance offerings include personal accident insurance, medical insurance, our Emergency Medical Insurance Card ("Medicard") and travel insurance. We recorded direct written premiums of HK$56 million from our accident and health insurance segment in 2005, representing 5.1% of total direct written premiums in 2005. In 2005 and the six months ended 30 June 2006, the loss ratios for our accident and health insurance segment in Hong Kong were 29.4% and 30.8%, respectively. We have recorded underwriting profits for this segment for both our Hong Kong and PRC operations during each of the past three financial years. To determine premium rates for our accident and health insurance products, we consider such factors as coverage level and the age and occupation of the insured individual.

Accident Insurance

We offer more than 10 different types of accident insurance products, including general products directed to the mass market and products aimed at specific groups of people. Our general and mass market products include both individual and group accidental injury insurance products. We also offer products aimed at specific groups of people, including accidental injury insurance products for travellers and students. Our accident insurance products cover death and physical disability resulting from accidents. A number of our products also cover medical expenses incurred for treatment of bodily injuries resulting from an accident. We recorded direct written premiums of HK$22 million from our accident insurance line in 2005, representing 2.0% of our total direct written premiums and 40.0% of direct written premiums from our accident and health insurance segment in 2005.

Medical Insurance

We offer various levels of general medical insurance products. Our medical insurance products cover general hospital expenses including room and board charges, fees for surgeons and anaesthetists and other miscellaneous hospital charges as well as worldwide emergency assistance services, death allowances and outpatient benefits. We also have a cash benefit insurance policy that provides immediate financial assistance in case of hospitalisation and which may be purchased in addition to general medical insurance. We recorded direct written premiums of HK$17 million from our general medical insurance line in 2005, representing 1.5% of our total direct written premiums and 30.9% of direct written premiums from our accident and health insurance segment in 2005. In 2005, we refined our underwriting policies to limit the number of group medical policies written to organisations with unprofitable claims histories.

Accidental Emergency Medical Insurance Card

We believe we are the first general insurer to offer accidental emergency medical insurance to residents of Hong Kong, Macau and Taiwan, who are injured as a result of an accident in mainland China. By presenting our "Accidental Emergency Medical Insurance Card", or "Medicard", insured parties are entitled to receive immediate in-patient medical treatment without any hospital network admission deposit. We are authorised by the International Health Exchange Centre, the Ministry of Health in the PRC and by the Health Departments of Guangdong and Fujian Provinces to issue our Medicard. The emergency card may be used at a network of approximately 1,820 hospitals throughout the PRC, including approximately 1,020 hospitals in Guangdong and Fujian Provinces. We recorded direct written premiums of HK$16 million from our emergency medical insurance line in 2005, representing 1.5% of our total direct written premiums and 29.1% of direct written premiums from our accident and health insurance segment in 2005.

OPERATIONAL STRUCTURE

Our Hong Kong headquarters has the highest decision-making authority for matters involving underwriting, pricing, claims management and risk management. Our Hong Kong headquarters also directly manages the underwriting and claims functions of large and high-risk insurance policies. In the PRC, our Ming An China headquarters in Shenzhen, branches and sub-branches are granted certain decision-making power subject to pre-determined limits.

We implement our authorisation system based on internal guidelines, which set limits for operational aspects, including:

- management's rights (including approval of policy terms, execution of legal documents and representation of us in certain specific legal proceedings);
- the insured amount (by product lines) for which the relevant branch/sub-branch (in the PRC) or distributor (in Hong Kong) has authority to issue insurance policies without consulting our headquarters in Hong Kong;
- the amount of claims (by product lines) for which the relevant office (in the PRC) or distributor (in Hong Kong) has authority to settle without consulting our headquarters in Hong Kong;
- management's scope of authority with respect to our day-to-day operations, formulation of budgets and other development plans;

- human resources management; and
- auditing.

Branches, sub-branches and distributors are not permitted to make decisions or engage in any activities exceeding their respective pre-determined operational limits. We utilise our computer systems to monitor the amounts of policies issued and the amounts of claims settled to ensure compliance with these limits. We believe our authorisation system allows us to centralise control over key policies and standards at our headquarters. Under this authorisation system, underwriting, risk management and claims management are centralised, while sales and marketing activities are delegated to personnel familiar with local conditions and customers. In the future, as we expand our PRC operations, we expect to shift oversight to an expanded PRC headquarters, using our Hong Kong headquarters as a model, overseeing a centralised framework and information technology platform.

PRODUCT DEVELOPMENT, PRICING AND UNDERWRITING

The development of new products is organised, managed and coordinated primarily by our strategic planning department with the involvement of our in-house actuary at our headquarters in Hong Kong. We develop new products in response to the changing needs and demands of our customers.

Product Development and Pricing

We have established a process utilising actuarial techniques to price our products. We require our product development staff and underwriting staff to follow standardised procedures and strict internal guidelines. Our product pricing is determined on the basis of a number of factors, including the projected frequency of claims and severity of potential losses, expenses associated with marketing, distribution and claims settlement and the prices of similar products in the relevant market. We also take our overall return on capital objectives into account when setting product prices. Initial pricing of a new product is determined by our product development centre in conjunction with the relevant business departments at our headquarters in Hong Kong. We design terms for new products, taking into consideration factors such as our customers' needs, terms of our existing products and terms of any similar competing products already in the market. Our long-standing operating history in Hong Kong has enabled us to develop significant market knowledge and an in-depth understanding of the general insurance market in Hong Kong, thereby enhancing our competitive advantage in terms of product development, risk assessment and maintaining underwriting profitability.

For mass market products with standard terms and provisions, such as motor vehicle insurance products, we attempt to develop a pricing model using an analysis of risk profiles based on information and data that we have accumulated over the years, together with third-party industry data, to produce a schedule of actuarial rates where actuarial analysis is applicable. We take into consideration the loss rates, as well as our estimated expenses associated with distribution, marketing and claims management, to determine our "breakeven" rates, and subsequently add in a suitable margin for profit.

Although we stress profitability when establishing our pricing schedule, the margin for profit that we are able to build into our prices is significantly influenced by insurance market conditions, which in turn are mainly dependent upon whether there is sufficient demand in the general insurance market as well as the availability of that particular product from our competitors. Current market price for the particular class of risk for reference is thus another factor in determining our final price.

After launching a new product, we continue to monitor pricing factors and product performance. We collect information on, among other things, the number of claims, claim amounts and claim frequency and, if necessary, adjust product pricing in accordance with these findings.

For products that are tailored to customers' specifications and marketed to different customers at different rates, the pricing process continues well after initial product development and product launch. Pricing for such products is determined after completion of a risk analysis and the completion of an established underwriting process. During such pricing process, we apply actuarial and technical expertise to determine statistical probability and severity of estimated losses based upon customer supplied data as well as proprietary and third-party data sources.

Underwriting

The processes through which we underwrite insurance risks vary according to the type of insurance product being underwritten. The process for underwriting standard insurance risks with relatively small insured amounts, which we sell to the public at a fixed price, is fairly simple and involves limited analysis and processing. Such small, standard policies are generally underwritten using standardised procedures, either by members of our direct sales force, intermediaries or other financial institutions.

The underwriting of customised and more complicated insurance risks, and policies involving larger insured amounts, is subject to stricter procedures and more sophisticated risk control mechanisms. The underwriting process usually starts with a formal application, which prompts us to begin our risk appraisal on both the applicant and the subject to be insured. Specific criteria for risk analysis varies depending on the type of insurance product. At our Hong Kong headquarters, we have five underwriting departments to service our various business segments. Applications are given to the relevant underwriting department by our marketing department for direct sales, or by our agent department or broker department for sales through such intermediaries. Each application is evaluated by the underwriting department for such segment and, if accepted, a senior officer in that underwriting department prepares an initial quotation for the customer. When reviewing an application, the underwriting department works closely with the claims department to assess the risk for such policy. For large insurance policies exceeding standard authorisation guidelines or unusual applications, the respective underwriting department submits the application to the underwriting committee for their review. The underwriting committee, comprising the Chief Executive Officer, the General Manager and three other members of senior management, meets regularly to review such applications. The committee also conducts an annual review of the relevant standard authorisation guidelines for our Ming An China sub-branches, branches and head office, as well as for our various Hong Kong distribution channels.

As part of our hierarchical authorisation system, the underwriting authority of each sub-branch, branch and headquarters of Ming An China is subject to strict guidelines. Our PRC sub-branch and branch offices can make underwriting decisions for any policy that falls within their authorisation limits as determined by our Hong Kong underwriting committee. Any policy exceeding the authorisation limit of any branch must be reported to and approved by Ming An China headquarters. Large insurance policies exceeding the authorisation limit of Ming An China headquarters must be approved by the relevant divisions at our Hong Kong headquarters. Limits on underwriting authority vary by product type.

PRC

In the PRC, for insurance products with a public interest component, such as motor vehicle insurance products, employers' liability insurance products and mandatory insurance products stipulated under laws and regulations, the formulation and material modification of policy terms and premium rates are subject to prior review and approval by the CIRC. Formulation and material modification of policy terms and premium rates of other general insurance products, for which prior CIRC approval is not required, are still subject to the completion of filing procedures with, and confirmation by, the CIRC prior to product launch.

DISTRIBUTION

Our three primary distribution channels are intermediaries such as agents and brokers, direct sales and other financial institutions. As of 30 June 2006, our distribution network in Hong Kong comprised 58 internal sales personnel, 4,435 intermediaries, 10 banks and several life insurance companies. As of 30 June 2006, our distribution network in the PRC comprised six operating sub-branch offices, two operating branch offices, 76 internal sales personnel, 106 intermediaries and 24 banks. As independent individual agents are not permitted to distribute general insurance products to PRC corporate clients, in the PRC we utilise direct sales, local banks and agent and broker firms to distribute to such clients.

The table below sets forth our direct written premiums by distribution channel for the periods indicated:

	Year ended 31 December						Six months ended 30 June 2006	
	2003		2004		2005			
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(HK$ in millions, except percentages)							
Direct sales	212	18.4%	186	16.5%	193	17.6%	83	14.7%
Financial institutions	78	6.8	76	6.8	92	8.4	40	7.0
Agents	516	44.8	494	43.8	425	38.8	199	35.1
Brokers	345	30.0	371	32.9	387	35.2	245	43.2
Total	**1,151**	**100.0%**	**1,127**	**100.0%**	**1,097**	**100.0%**	**568**	**100.0%**

Intermediaries

Intermediaries, such as agents and brokers, represent the largest portion of premium income of all of our distribution channels. With the exception of our exclusive agents, our agents and insurance brokers are typically allowed to market and sell the general insurance products of multiple insurance companies. Our direct sales force and exclusive agents market and sell our products on an exclusive basis and act as an alternative sales channel to external agents and insurance brokers.

Agents

Direct written premiums generated through agents represented approximately 38.8% and 35.1% of our total general insurance direct written premiums in 2005 and the six months ended 30 June 2006, respectively. The agents we utilise include professional individual agents and agency firms in Hong Kong and the PRC, ancillary agents such as car dealerships, trading firms and travel agencies, which also sell our insurance products as a complement to their business in the PRC, and exclusive agents in Hong Kong.

We require all of our agents to enter into agency agreements with us before distributing our products. These agreements set out terms under which agents act for us, such as activities they are authorised to carry out on our behalf and prohibited activities, types of products they are authorised to sell and the criteria for payment of commissions. In Hong Kong, our agents are required to be registered with the Insurance Agents Registration Board. In the PRC, our agents are required to take the qualification test given by the CIRC, and can begin marketing and selling our products only after receiving their qualification certificate from the CIRC and a practicing licence issued by us.

Agents are responsible for submitting a customer's information and insurance application for processing to our headquarters in Hong Kong and to our local offices in the PRC as applicable. Some agents have limited authority to issue certain types of policies based on terms and procedures fixed by us in advance.

Exclusive Agents

We regard our exclusive agents, whom we utilise in our Hong Kong distribution network, as an extension of our internal sales force. Although our exclusive agents are not employees, they are prohibited by contract from distributing insurance products for other insurance companies. We provide our exclusive agents with all necessary underwriting support as well as software and hardware required to continue to source new business on our behalf. Our exclusive agents primarily target individuals and small- to medium-size business enterprises as customers and distribute all of our insurance products. We place great emphasis on training exclusive agents on an on-going basis. Our standardised training programs include training on corporate culture, professional ethics, our insurance products and marketing and sales skills. Exclusive agents generated approximately 3.5% and 3.6% of our total direct written premiums in 2005 and the six months ended 30 June 2006, respectively.

Insurance Brokers

In both Hong Kong and the PRC, a substantial portion of our premiums are generated through insurance brokers, who typically represent the purchasers of general insurance products. Insurance brokers are not authorised to issue policies. We have established relationships with leading international and local brokerage firms in both Hong Kong and the PRC. In addition, in October 2006 we received approval from the CIRC to prepare to establish a PRC subsidiary of Ming An China to carry out insurance brokerage activities in the PRC. Insurance brokers generated approximately 35.2% and 43.2% of our total direct written premiums in 2005 and the six months ended 30 June 2006, respectively.

Direct Sales

Our direct sales personnel are primarily responsible for selling our insurance products directly to our customers with whom we have long-term relationships. Our direct sales personnel are remunerated on a salary basis with a performance-based incentive bonus. Direct sales personnel generated approximately 17.6% and 14.7% of our total direct written premiums in 2005 and the six months ended 30 June 2006, respectively.

Financial Institutions

In addition to intermediaries and our direct sales, we also distribute our insurance products through various reputable commercial banks and life insurers in Hong Kong and the PRC. These financial institutions act as our agents, but we handle the relationship with financial institutions through a separate department as we aim to expand this distribution channel. Such department is responsible for managing our relationships with these banks and life insurers. Consistent with industry practice, the financial institutions are authorised to issue certain policies directly within our specified limits. In Hong Kong, we currently have contractual agreements with several well-known life insurance companies to distribute our general insurance products through their agents. In Hong Kong, we also currently have business relationships with several major banks. In the PRC, we have relationships with both local and foreign banks. We attempt to leverage the extensive branch networks of these financial institutions to sell our insurance products to their customers. The profit potential of selling through financial institutions is higher because these institutions have effectively pre-screened their customers, thereby typically lowering loss ratios arising from such customers as compared to the general public. Direct written premiums generated through financial institutions represented approximately 8.4% and 7.0% of our total direct written premiums in 2005 and the six months ended 30 June 2006, respectively.

MARKETING

We have different marketing strategies for Hong Kong and the PRC due to the differences in customer awareness, market competitiveness and cost considerations between the two markets. Hong Kong is a well-developed, competitive market in which price competition is intense across all segments. As such, we plan to target under-penetrated sectors of the market such as personal accident and property insurance through various initiatives, including our strategic alliance with Cheung Kong. We believe the PRC market, by contrast, is under-penetrated and presents an opportunity for high premium growth. We intend to take advantage of our PRC company status and engage in a strategy of rapid branch expansion in an attempt to capture market share.

We have implemented, or are in the process of implementing, a number of marketing initiatives aimed at more effectively targeting important customer groups. For our largest customers in terms of premiums generated, we have established teams to assist them with risk appraisal and accident prevention. For our most important and most valuable customers, including those with whom we have long-term relationships, our headquarters is directly involved in virtually every aspect of our business relationship with them. We have developed a proprietary customer relationship management system in Hong Kong that systematically analyses customer profiles and separates them into different categories to increase customer retention by offering special services to VIP customers. We expect this system to be implemented by the end of 2006.

CUSTOMERS AND CUSTOMER SERVICE

Our customers range from large companies to small- and medium-sized enterprises to individuals. Our five largest customers represented approximately 10.1%, 11.8%, 13.4% and 16.5% of our total direct written premiums for the three years ended 31 December 2005 and the six months ended 30 June 2006, respectively. The following table sets forth the geographic distribution of our direct written premiums for the periods indicated:

	Year ended 31 December						Six months ended 30 June 2006	
	2003		2004		2005			
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(HK$ in millions, except percentages)							
Hong Kong operations	971	84.4%	924	82.0%	833	75.9%	452	79.6%
PRC operations:								
Shenzhen	175	15.2	198	17.6	257	23.4	112	19.7
Haikou	5	0.4	5	0.4	7	0.7	4	0.7
Total	**1,151**	**100.0%**	**1,127**	**100.0%**	**1,097**	**100.0%**	**568**	**100.0%**

Providing high-quality customer service is an important component in our effort to maintain customer relationships and to expand our business. We strive to distinguish ourselves from our competitors by providing prompt, accessible and personalised service to our customers through a variety of means. For example, we have a 24-hour hotline for our Medicard customers, we provide individualised services for our VIP customers and we provide customers with an option of sending questions and claims via e-mail. We believe that by providing superior service to our customers, we can strengthen our relationship with them and increase the likelihood that they will come to us when they have insurance needs.

CLAIMS MANAGEMENT

We believe prompt and efficient claims management is the key to minimising operating costs and improving profitability and service quality. Our claims management philosophy emphasises:

- establishing standardised claims management procedures;
- training specialised claims management personnel; and
- providing timely and accurate claims management services.

The processing of claims follows an authority chain similar to our underwriting process. Depending on the product, claims under specified limits are handled at different levels of authority. Each major business segment has its own claims department, with the exception of a separate centralised claims department handling employees' compensation, motor and public liability claims, all of which are long-tail in nature.

We process claims in accordance with our internal claims management regulations. Upon receipt of a claim request from an insured party, our claims handlers assess whether such claim is covered by the terms of the original policy. If so, we utilise independent loss surveyors/adjusters from a panel to assess damage. The loss surveyor/adjuster provides a report to the relevant claims department, which then determines the amount of payment to be made. For amounts exceeding specified limits, the case is sent to the claims committee, comprising the Chief Executive Officer, the General Manager and three other members of senior management, for review. Once the appropriate body decides that a payment is due to the insured party, a loss adjustment form is sent to the accounts department and a payment is made by check or, in some cases, by bank transfer.

To ensure we achieve our goal of prompt and efficient claims management, we require our staff to promptly respond to an insured event. Once claims have been confirmed and liability determined, our staff are instructed to make prompt payment. At our Hong Kong headquarters, we manage a computer system that provides us with information regarding how many claims are outstanding at any time, including claims associated with our PRC operations.

REINSURANCE

We reinsure a portion of the risks we underwrite in an attempt to reduce our risk exposure, to protect our capital resources and to maintain stability in our operations. We also use reinsurance to leverage our underwriting capacity to underwrite larger risks and limit our exposure to potential extraordinary losses. We have established an investment and reinsurance committee at the Board level, comprising a majority of independent non-executive Directors, to consider and make decisions regarding, among other things, reinsurance services to be provided by China Insurance Group and other reinsurers.

Treaty Reinsurance

Treaty reinsurance is the reinsurance of blocks of risks, whereby all risks of a category defined in the relevant reinsurance agreement are accepted by the reinsurer. Pursuant to the terms of such treaties, we have the obligation to offer, and the reinsurer is obligated to accept, a certain portion of that category of risk underwritten by us. Generally, our proportional and non-proportional reinsurance treaties are arranged annually and contain provisions for renewal each year. Reinsurance treaties typically set out certain terms specifying capacity, scope of coverage, liability exclusion and governing law.

We currently maintain seven major reinsurance treaties, including five major proportional reinsurance treaties and two major excess of loss reinsurance treaties. We also maintain numerous smaller reinsurance treaties. Our five major proportional treaties and two major excess of loss treaties include:

- Fire Quota Share and Surplus Treaty — this treaty allows us to cede risks relating to property damage. The maximum treaty limit is HK$300 million per risk (maximum possible loss or sum insured).
- Miscellaneous Accident Quota Share and Surplus Treaty — this treaty allows us to cede risks relating to general accident, contractors' all risks, erection all risks, engineering and bond business. The maximum treaty limit is HK$80 million per risk.
- Marine Hull Quota Share Treaty — the maximum treaty limit is US$10 million per vessel or per risk.
- Transport Liability Quota Share Treaty — this treaty allows us to cede risks relating to legal liability arising from logistics operations. The maximum treaty limit is US$1.5 million for any one accident.
- Protection and Indemnity Quota Share Reinsurance Agreement — this treaty allows us to cede risks relating to small craft protection and indemnity business. The maximum treaty limit for protection and indemnity is HK$25 million for any one vessel. The maximum treaty limit for bodily injury of crew members is HK$100 million for any one event.
- Combined Liability Excess of Loss Treaty — this treaty covers losses arising from motor liability and employees' compensation claims which exceed HK$5 million. This treaty provides unlimited reinsurance cover for losses arising from motor third-party liability and employees' compensation claims.
- Combined Marine Excess of Loss Treaty — this treaty covers losses arising from marine hull, marine cargo and transport liability claims which exceed US$0.4 million. This treaty provides reinsurance cover for losses up to US$10 million. This excess of loss treaty protects our retention of the Marine Hull Quota Share Treaty, the Transport Liability Quota Share Treaty and the Protection and Indemnity Quota Share Reinsurance Agreement.

Facultative Reinsurance

Facultative reinsurance is the reinsurance of all or a portion of the risks under a single policy. Each facultative reinsurance policy is separately negotiated. To supplement our treaty reinsurance and allow us to underwrite any single large or complex risk, we explore the possibility of facultative reinsurance. For certain policies in which we are exposed to potentially large losses or the risks involved exceed specified amounts, we will examine the price of facultative reinsurance on the international market before formulating the underlying underwriting terms and may arrange for facultative reinsurance.

Reinsurance Plan

Our major treaty reinsurance arrangements are coordinated by our Hong Kong headquarters. Beginning in September of each year, we prepare our reinsurance plan for the coming financial year based on factors such as our level of capital, business operations strategy and business composition. Our reinsurance department prepares a reinsurance proposal containing retention standards by product line, scope and coverage limits for treaty reinsurance and the budget for the treaty reinsurance we plan to obtain. After the plan is reviewed and approved by senior management, the reinsurance department negotiates reinsurance terms with reinsurers and enters into reinsurance treaties in accordance with the approved reinsurance plan.

Consistent with market practice, our reinsurers pay us reinsurance commissions on proportional reinsurance. Our proportional reinsurance commissions are negotiated annually and are largely determined by the amounts we recovered from our reinsurers on losses incurred in previous years. We do not receive commissions for non-proportional reinsurance.

We become subject to the credit risk of our reinsurers when we purchase reinsurance. We therefore carefully evaluate the financial condition of any reinsurer with whom we do business. Reinsurers are ultimately selected on the basis of their financial condition, history of cooperation, quality of service and price of their reinsurance products. Under the PRC Insurance Law, we are required to give priority to PRC insurance companies when obtaining reinsurance. We do not face any similar requirement under Hong Kong law.

The following table sets forth the reinsurance premiums ceded to our top five reinsurers for the six months ended 30 June 2006 and the respective ratings by Standard & Poor's and A.M. Best:

	Reinsurance premiums ceded	**Standard & Poor's/ A.M. Best**
	(HK$ in millions)	
CIRe	45.4	A-/A-(Excellent)
Swiss Re	14.3	AA-/A+ (Superior)
Munich Re	11.5	A+/A+ (Superior)
Korean Re	8.6	BBB+/A- (Excellent)
Transatlantic Re	8.2	AA-/A+ (Superior)

OUTSTANDING CLAIMS RESERVES

Our outstanding claims reserves include losses and loss-adjustment expenses that have been incurred but have not yet been reported ("IBNR") and case reserves that have been reported. We estimate reported claims on an individual basis based on our past experience of similar losses and the judgement of our experienced claims handlers. Estimates of reported claims are reviewed bi-annually or annually, depending on the class of business, or revised immediately as more accurate information becomes available. This process is regularly reviewed by comparing the estimated amount and the final settlement amount of a claim to ensure that the established reserving policies are reasonable and supported by recent experience. We adjust our outstanding claims reserves levels to reflect volumes of business underwritten, frequency and severity of claims, industry and legal developments and new loss and claims information. We also have our aggregate outstanding claims reserves for most classes of business reviewed annually by a recognised actuarial firm.

We introduced our current reserving policies and procedures based on actuarial analysis in 2001 for our motor and employees' compensation segments and in 2003 for our other major business segments. Our outstanding claims reserves for the period from 2001 and 2005 and as at 30 June 2006 were determined by our senior management with reference to advice from independent and recognised actuarial firms. See "Appendix III — Actuarial Consultant's Report" and, in particular, the limitations and qualifications in estimating reserves as described therein. The following table sets forth our outstanding claims reserves gross and net of reinsurance recoverable as of the dates indicated:

	As of 31 December			As of 30 June
	2003	2004	2005	2006
	(HK$ in millions)			
Gross outstanding claims reserves	3,717	3,123	2,717	2,546
Reinsurance recoverable	(1,652)	(1,232)	(1,147)	(1,133)
Net outstanding claims reserves	**2,065**	**1,891**	**1,570**	**1,413**

Loss Patterns

The following table sets forth the loss development pattern in outstanding claims reserves plus claims paid, gross of reinsurance, for the periods indicated up to 30 June 2006:

	Accident Period Ended 31 December								
	Prior years	1999	2000	2001	2002	2003	2004	2005	2006
	(HK$ in millions)								
Estimate of cumulative claims[1]									
At end of accident year/period	2,282	1,214	1,673	1,403	810	654	649	637	402
One year later	2,319	1,385	1,581	1,195	1,025	831	626	756	–
Two years later	4,390	1,594	1,775	1,487	1,109	886	658	–	–
Three years later	3,959	1,722	1,745	1,291	1,119	950	–	–	–
Four years later	3,892	1,598	1,567	1,216	994	–	–	–	–
Five years later	3,760	1,534	1,516	1,133	–	–	–	–	–
Six years later	3,635	1,476	1,413	–	–	–	–	–	–
Seven years later	3,545	1,447	–	–	–	–	–	–	–
Eight years later	3,485	–	–	–	–	–	–	–	–

(1) Based on information available as of 30 June 2006.

The following table sets forth the loss development pattern in outstanding claims reserves plus claims paid, net of reinsurance, for the periods indicated up to 30 June 2006:

	Accident Period Ended 31 December								
	Prior years	1999	2000	2001	2002	2003	2004	2005	2006
	(HK$ in millions)								
Estimate of cumulative claims[1]									
At end of accident year/period	974	537	874	792	510	389	410	412	348
One year later	1,028	756	965	736	606	510	397	543	–
Two years later	1,792	921	1,088	883	653	506	409	–	–
Three years later	1,792	963	1,039	749	654	432	–	–	–
Four years later	1,699	875	919	689	512	–	–	–	–
Five years later	1,628	876	888	621	–	–	–	–	–
Six years later	1,674	827	822	–	–	–	–	–	–
Seven years later	1,576	794	–	–	–	–	–	–	–
Eight years later	1,524	–	–	–	–	–	–	–	–

(1) Based on information available as of 30 June 2006.

In general, claims made under our policies are settled within a relatively short amount of time after the occurrence of an accident, except claims relating to motor insurance, employees' compensation insurance and public liability insurance. Such claims typically require substantially more time to resolve than claims under our other product lines due to their complicated nature and the larger size of individual claims. With the exception of claims associated with our motor, employees' compensation and public liability product lines, we estimate that, historically, more than 81% and 98% of the number of our claims are paid within one year and three years, respectively, of the occurrence of an accident, and approximately 83.4% of the gross estimated ultimate loss incurred in 2003 (in relation to product lines other than motor insurance, employees' compensation and public liability insurance) had been paid as of 31 December 2005.

INVESTMENTS

Our investment portfolio is an integral part of our business. Our financial strength, underwriting capacity, and results of operations depend, in significant part, on the quality and performance of our investment portfolio.

We have established an investment and reinsurance committee at the Board level, comprising a majority of independent non-executive Directors, to consider and make decisions regarding, among other things, the selection of investment managers and other important decisions relating to the management of our investment funds. We also have an investment management committee, comprising our Chief Executive Officer, General Manager, Deputy Chief Financial Officer and two other members of our Finance and Accounts department, which is responsible for devising our annual investment plan, which is subject to approval by our Board. Upon obtaining approval from our Board, our investment management committee will formulate investment plans and implement a detailed investment policy based on this plan. Currently, all of China Insurance Holdings subsidiaries' investment funds outside the PRC are managed by CIGAML, a wholly owned subsidiary of CIIH, on an arm's-length basis whereby CIGAML receives an annual 0.6% fee based on assets under management. CIGAML, however, merely acts as our fund manager and does not formulate our investment plans on our behalf. Our investment management committee is responsible for monitoring the investment activities of CIGAML and ensuring that they strictly follow our investment plans and policy, including the composition of the investment portfolio, the currencies of investment and the geographic distribution of the investments. The following are the guiding principles of our investment policy: mitigating interest rate and credit risks, ensuring liquidity of funds for our operations, earning a competitive market rate of return while considering the investment risk, constraints and our cash flow needs, gaining stable non-insurance income, generating cash for expansion, complying with local regulations and increasing our return on equity. All premiums received by Ming An China are currently held in bank deposits in the PRC and are denominated in Renminbi, Hong Kong dollars or U.S. Dollars.

As of 31 December 2005 and 30 June 2006, the carrying value of our investments was HK$2,292 million and HK$3,317 million, respectively. The following table sets forth the value of our investment portfolio by investment category for the periods indicated:

	As of 31 December						As of 30 June	
	2003		2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(HK$ in millions, except percentages)							
Equity Securities:								
Listed	329	15.6%	320	15.9%	274	12.0%	409	12.3%
Unlisted	73	3.5	61	3.0	39	1.7	2	0.1
Debt Securities:								
Listed	21	1.0	146	7.2	132	5.8	120	3.6
Unlisted	8	0.4	8	0.4	8	0.3	0	0.0
Bank deposits	932	44.2	719	35.6	890	38.8	1,831	55.2
Investment properties	705	33.4%	743	36.9%	929	40.5%	949	28.6%
Other investment assets[(1)]	39	1.9%	18	0.9%	20	0.9%	6	0.2%
Total	**2,107**	**100.0%**	**2,015**	**100.0%**	**2,292**	**100.0%**	**3,317**	**100.0%**

(1) Other investment assets primarily consists of investments in associates, loan receivables and investments in gold.

In 2005, total investment income was HK$94 million, representing an overall average investment yield of 4.4%. The following table sets forth our investment return and average annual yields for each type of our investments for the periods indicated:

	Investment return			Average yield		
	Year ended 31 December		Six months ended 30 June	Year ended 31 December		Six months ended 30 June
	2004	2005	2006	2004	2005	2006
	(HK$ in millions)					
Interest and dividend income:						
Dividend income from trading and non-trading securities	8	40	5	2.1%	11.7%	2.9%
Interest income from trading and non-trading securities	4	8	4	3.9	5.2	5.4
Interest income from bank deposits	8	16	16	1.0	2.0	3.5
Rental income from investment properties	30	30	17	4.1	3.6	3.6
Total	**50**	**94**	**42**	**2.4%**	**4.4%**	**3.5%**

In the PRC, pursuant to Article 79 of the PRC Insurance Law, an insurance company is required to deposit 20% of its registered capital into a bank designated by the CIRC as a capital guarantee fund. This fund shall not be used for any purpose other than to pay off debts during liquidation proceedings. We have complied with this 20% deposit requirement throughout the Track Record Period. As of 30 June 2006, through our subsidiary and branches in the PRC, we had placed HK$70 million with banks as capital guarantee funds.

Equity Securities

Our listed equity investments primarily comprise stock listed on the Stock Exchange. As of 31 December 2005 and 30 June 2006, we held equity securities valued at HK$313 million and HK$412 million, respectively, representing 13.7% and 12.4%, respectively, of our investment portfolio. As of 31 December 2005, we held HK$274 million in listed equity securities and HK$39 million in unlisted equity securities, representing 87.5% and 12.5%, respectively, of our equity investment portfolio. As of 30 June 2006, we held HK$409 million in listed equity securities and HK$2 million in unlisted equity securities, representing 99.5% and 0.5%, respectively, of our investment portfolio.

We have a substantial investment in the listed shares of Pacific Century Insurance Holdings Limited ("PCIH"). As of 30 June 2006, we held 91 million shares in PCIH valued at HK$373 million, which represented 11.2% of our investment portfolio, 90.8% of our total investment in equity securities and 11.3% of the total issued shares of PCIH. Because our management intends to hold this investment for strategic purposes, it has been recorded under available-for-sale securities with any change in fair value dealt with in shareholders' equity and the operating results will not be affected by the fair value movement of the securities.

Debt Securities

As of 31 December 2005 and 30 June 2006, we held various types of bonds, valued at HK$139 million and HK$120 million, respectively, representing 6.1% and 3.6%, respectively, of our investment portfolio. Our holdings of bonds include bonds issued by governments, corporate issuers and financial institutions. As of 31 December 2005, we held HK$29 million in government bonds, HK$42 million in bonds issued by financial institutions and HK$68 million in corporate bonds. As of 30 June 2006, we held HK$27 million in government bonds, HK$42 million in bonds issued by financial institutions and HK$51 million in corporate bonds. We strive to manage our risk by holding bonds with a Standard & Poor's rating of at least BBB-. As of 31 December 2005 and 30 June 2006, our net investment return on Bonds was 5.2% and 5.4%, respectively.

The following table sets forth certain information concerning our debt holdings:

Issuer	Fair Value			
	As of 31 December			As of 30 June
	2003	2004	2005	2006
	(HK$ in millions)			
Government	0	12	29	27
Financial Institutions	4	73	42	42
Corporate	25	69	68	51
Total	**29**	**153**	**139**	**120**

The following table sets forth the ratings breakdown of our debt holdings as of 30 June 2006:

Credit Rating	Percentage of portfolio
AA-	12.2%
A	27.7
A-	31.9
BBB+	21.3
BBB	6.9
	100.0%

The following table sets forth the maturity analysis of our debt holdings as of 30 June 2006:

Maturity periods	Percentage of portfolio
One to five years	78.2%
Five to ten years	21.8
	100.0%

Bank Deposits

We maintain primarily Hong Kong dollar, U.S. dollar and Renminbi cash deposits in Hong Kong and the PRC. To ensure the availability of adequate cash for day-to-day operations and to meet claim payments which may be required from time to time, we maintain call deposits and term deposits, the majority of which are for terms between two weeks and one month, which provides us with maximum liquidity while maintaining investment value. As of 31 December 2005 and 30 June 2006, we had bank deposits valued at HK$890 million and HK$1,831 million, respectively, representing approximately 38.8% and 55.2%, respectively, of our investment assets and having an investment return of 2.0% and 3.5%, respectively. In Hong Kong, our bank deposits are placed in large commercial banks, such as China Merchants Bank, Industrial and Commercial Bank of China, Citic Ka Wah Bank, Nanyang Commercial Bank and Citibank. In the PRC, our bank deposits are also concentrated in certain large commercial banks, including Bank of Communications, China Merchants Bank, China Construction Bank, China CITIC Bank, Bank of East Asia and China Minsheng Bank.

The table below sets forth our bank deposits by maturity and cash as of the dates indicated:

	Year ended 31 December						Six months ended 30 June	
	2003		2004		2005		2006	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
	(HK$ in millions, except percentages)							
Bank deposits with an original maturity of more than three months	107	11.5 %	51	7.1 %	75	8.5 %	21	1.2 %
Bank deposits with an original maturity of three months or less	593	63.7	370	51.4	525	58.9	1,557	85.0
Cash	231	24.8	299	41.5	290	32.6	253	13.8
Total	**931**	**100.0%**	**719**	**100.0%**	**890**	**100.0%**	**1,831**	**100.0%**

Investment Properties

We own Ming An Plaza, the building in which our headquarters are located. Ming An Plaza is located in Causeway Bay, Hong Kong and has an aggregate gross floor area of 21,898 sq.m. (235,717 sq.ft.), of which 15,329 sq.m. (165,005 sq.ft.) is held for investment purposes. We also hold 11 office units for investment in Hong Kong. Located in Hong Kong Island, in Kowloon and in the New Territories, these office units have an aggregate gross floor area of 2,213 sq.m. (23,818 sq.ft.). We also have one rental property in Kowloon with an approximate gross area of 123 sq.m. (1,321 sq.ft.). We hold for investment eight residential properties in Hong Kong Island and Discovery Bay with an aggregate gross floor area of 1,080 sq.m. (11,627 sq.ft.). We invest in real estate and earn lease income from such investments. As of 31 December 2005 and 30 June 2006, investment properties represented approximately 40.5% and 28.6%, respectively, of our investment assets and rental income generated from these properties totalled HK$30 million and HK$17 million, respectively.

SOLVENCY MARGIN REQUIREMENT

Due to our dual status in Hong Kong and the PRC, we are subject to a number of Hong Kong and PRC regulations regarding our financial operations, including minimum paid-up capital requirements, stipulated solvency margins, regulatory benchmarks and provisions for certain funds and reserves. We have satisfied these requirements in Hong Kong and the PRC throughout the Track Record Period. See "Financial Information — Solvency Margin Requirement" and "Supervision and Regulation".

PROPERTIES

Our headquarters is located at 19/F., Ming An Plaza, 8 Sunning Road, Causeway Bay, Hong Kong. As of 31 December 2005, we also had one subsidiary office and one branch office in the PRC.

We currently own and occupy an aggregate gross floor area of approximately 8,638 sq.m. (92,983 sq.ft.) of properties in Hong Kong and the PRC for office use and an aggregate gross floor area of approximately 519 sq.m. (5,589 sq.ft.) of properties in Hong Kong and the PRC for staff quarters. We have leased 16 properties with an aggregate gross floor area of approximately 3,798 sq.m. (40,885 sq.ft.) from independent third parties in Hong Kong and the PRC for our own office space.

We use the properties we own and lease from third parties primarily as our offices.

RISK MANAGEMENT

Overview

Management of risk exposure is fundamental to our operations. We have established a comprehensive, integrated enterprise-wide risk management framework to manage risks across our operations on a continuous basis. The Underwriting Committee, the Claims Committee, the Investment Committee and the Internal Audit Committee have been established to identify, control and monitor our exposure to all risks and recommend the necessary measures to mitigate them. These committees, which consist of members of the senior management, are chaired by the Chief Executive Officer and regular meetings are held to review and revise our underwriting guidelines, claims procedures and investment strategies.

Our risk management framework is designed to foster a strong and well-informed risk management culture across our operations and to support our business decisions. The senior management is responsible for identifying and reviewing the major areas of risk for our business and our operating principles, and for approving and ensuring compliance with key financial and operational risk management policies.

Product Risk Management

Product risk 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. We manage product risk through the respective heads of departments. We delegate underwriting authority to experienced underwriters. Each underwriting department has an underwriting manual for each class of business, approved by the Underwriting Committee, which 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.

To reduce our product risk, our underwriting and claim processing departments follow closely the relevant underwriting and claim processing policies and procedures. In addition, we set aggregate retention limits and purchase reinsurance to further reduce our product risk.

While we write both short-tail and long-tail general insurance in Hong Kong, the majority of our business written in the PRC is short-tail in nature. Our short-tail business mainly comprises own-damage insurance of motor, property insurance and cargo insurance. The nature of this type of business is that claims typically can be finalised and settled soon after the occurrence of an accident. Major types of long-tail business written by us are employees' compensation, hull and motor third-party liability insurance. For these long-tail insurance classes, it may take years to finalise a claim.

Asset and Liability Management

The objective of our asset and liability management is to match our assets with our liabilities on the basis of duration. The nature of our liabilities in relation to insurance policies for areas other than motor, employees' compensation and public liability insurance are short-term, with claims paid or settled within one year and three years representing 34.7% and 83.4%, respectively, of our gross estimated ultimate loss incurred amount in 2003. Therefore, we need to maintain a sufficient amount of liquid assets on hand at all times to meet these obligations. We currently hold 32.1% of our assets in cash and cash equivalents, and we believe it is sufficient to meet these obligations. In the future, we may, from time to time, access liquidity by raising funds through the sale of investments. In essence, the primary goal of our asset and liability management activities is to achieve an optimal return while maintaining adequate levels of liquidity and capital and limiting our overall risk exposure.

Market Risk Management

Market risk is the risk of potential loss to future earnings, fair values or future cash flows that may result from changes in the value of a financial instrument as a result of changes in interest rates, market prices and other factors that affect market risk sensitive instruments. Market risk is attributed to all market risk sensitive financial instruments. The principal objectives of our market risk management activities are to:

- manage potential market losses within acceptable levels and contribute to earnings stability through independent identification, assessment and understanding of the market risks inherent to our business;
- assist us in setting a unified standard for controlling market risk throughout our organisation; and
- establish limits for equity risk exposures.

See also "Financial Information — Quantitative and Qualitative Disclosure about Market Risk".

Interest Rate Risk

Interest rate risk is the risk to the earnings or market value to the investment portfolio due to the uncertainty of future interest rates. Our exposure to interest rate risk is limited since our provision for outstanding claims is not discounted. In addition, although investments in debt securities are classified as securities held for trading, disposals will not be effected in the event that their market prices are considered unattractive and in which case, they will be held to maturity and redeemed at par value. As of 31 December 2005, we held approximately HK$139 million in debt securities. We estimate that a 100 basis point increase or decrease in interest rates would result in a HK$4 million decrease or increase, respectively, in the market value of our investments in debt securities.

Credit Risk Management

Credit risk is the risk of economic loss resulting from the failure of one of our obligors to make any payment of principal or interest when due, in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure. We are exposed to credit risks primarily associated with our deposit arrangements with commercial banks, our investments in bonds issued by companies and our reinsurance arrangements with reinsurers. We attempt to mitigate credit risk by utilising detailed credit control policies, by undertaking credit analysis on potential investments, and by imposing aggregate counter party exposure limits within our investment portfolio. Our investment guidelines also require that the risk levels of the various investment sectors be continuously monitored with allocations adjusted accordingly. For investment assets carried at historical cost, whenever it is probable that we will not be able to collect all the amounts due according to applicable contractual terms, an impairment or loss is recognised in our financial results.

We are subject to the credit risk of our reinsurers in the event of insolvency or the reinsurer's failure to honour their payment commitment. To reduce such risks, we maintain and review regularly a list of approved reinsurers. Business may only be ceded to companies appearing on the approved list. In addition, we establish and follow strict debt collection procedures. In addition, we regularly review overdue balances and make provision for doubtful debts covering both general and specific provisions based on the aging of the premium receivables. We seek to maintain strict control over our outstanding premium receivables and have credit control functions to minimise our exposure to credit risk.

Concentration Risk Management

Concentration risk is the risk of incurring a major loss as a result of having a significant portion of our insurance concentrated in a single entity, group of related entities or industry segment. The top four classes of insurance written in each of 2003, 2004 and 2005 in terms of direct written premiums are marine, property, liability and motor, which represented in the aggregate approximately 94.9%, 94.9% and 95.0%, respectively, of our total direct written premiums.

We underwrite risks in Hong Kong and the PRC. Direct written premiums in Hong Kong for 2003, 2004 and 2005 represented 84.4%, 82.0% and 75.9% of, respectively, of our total direct written premiums, with the remainder contributed by the PRC. The majority of the motor, property and liability risks we cover are located in Hong Kong and the PRC. Our marine and personal accident coverage extends worldwide.

INTERNAL CONTROLS

As part of our general internal control procedures, we have taken or plan to take the following precautions to guard against the possibility of misconduct by our employees or agents: (a) staff members are subject to our internal audit, as well as periodic review of their work by other staff members; (b) we have strengthened staff education and training through regular seminars and lectures for our employees and agents, so that they are competent to carry out their duties in compliance with the relevant rules and regulations; and (c) in respect of our PRC business, we regularly obtain information on the enactment of new rules and regulations relevant to our business from legal advisors and respected news media, and we intend to establish a separate legal department in Ming An China by the end of 2007.

COMPETITION

We face competition in each of our business lines as well as in each of our geographical markets. Competition in the general insurance industry is based on many factors, including distribution network outreach, sales force strength and abilities, product design features, customer service, financial strength ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the insurance company in the line of insurance to be written.

In both Hong Kong and the PRC, our primary competitors include domestic, multinational and foreign-invested general insurance companies. Some of these companies may have greater financial, management and other resources than we do, and may have more extensive operating experience than us. Furthermore, these companies may be able to offer a broader range of products and services, as well as establish their reserves more adequately, than us. We compete with other general insurance companies in Hong Kong and the PRC in areas such as product type, price, quality of service, distribution channels and scope of distribution network. We offer attractive insurance products at competitive prices to satisfy the specific insurance needs of our customers, either by offering individual policies or by combining various insurance products into a customised, comprehensive policy. We believe that we are a market leader in pricing in certain areas of our business and rather than reduce premiums to compete, we focus on more profitable product offerings or increase commissions to intermediaries to increase volumes. We also compete with other insurance companies to attract and retain experienced personnel and to form agency relationships with both individuals and institutional intermediaries. For an overview of our principal competitors in Hong Kong and the PRC, see “Industry Overview — Market Structure”.

In the PRC, the presence of foreign insurance companies in the market has continued to increase in recent years, and their business activities are expected 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 by employing products and skills developed in their home markets.

INFORMATION TECHNOLOGY

Development of information technology in areas such as operation management, financial control, customer service, and information collection and analysis is key to our business success and future growth. We have made substantial investments in order to upgrade and enhance our information technology infrastructure. We plan to invest approximately HK$21 million in developing our information technology infrastructure in 2007. We plan to further enhance our information systems by continuing to implement our five-year IT strategy and making further investments in this area. We have not experienced any material or major failures of our information technology or communications systems during the Track Record Period and thereafter.

EMPLOYEES

As of 30 June 2006, we had approximately 514 full-time employees. The following table sets forth a breakdown of the number of our full-time employees by function as of 30 June 2006:

	Number of employees
Senior management and executive staff	91
Financial and auditing staff	39
Marketing staff	111
Underwriter, claim handling and reinsurance staff	133
Support staff	140
Total	**514**

We offer competitive remuneration packages to our employees, including salaries, bonuses and various allowances to employees. We provide technical as well as operational training to all new employees and on-going training for all employees. We use our Hong Kong training facilities to aid in the professional development of our PRC employees. We recruit our personnel from the local market, but have in the past sent certain experienced personnel from our Hong Kong headquarters to our Ming An China offices. In addition, in the PRC we recruit fresh university graduates and offer them training opportunities in our PRC and Hong Kong offices.

In Hong Kong, we participate in a mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, the employer and its employees are each required to make monthly contributions to the plan at 5% of the employees' relevant income. For this purpose, the monthly relevant income is subject to a cap of HK$20,000.

In the PRC, we participate in various defined contribution retirement plans for our employees. We are required to contribute a portion of our employees' total wages to the state's pension plan in accordance with relevant local government regulation. Our contributions for 2003, 2004 and 2005 and the six months ended 30 June 2006 were RMB0.36 million, RMB0.47 million, RMB0.65 million and RMB0.31 million, respectively.

We follow the general housing policies as promulgated by local governments in the areas where we have operations in the PRC. We are required to make annual contributions to the PRC housing fund equivalent to a certain percentage of each employee's salary. Our contribution to the housing fund during 2003, 2004 and 2005 and the six months ended 30 June 2006 totaled approximately RMB0.32 million, RMB0.52 million, RMB0.47 million and RMB0.33 million, respectively. In addition, we also make contributions to social medical insurance plans, work-related injury insurance and birthing insurance pursuant to requirements of local governments to provide medical benefits to our employees in the PRC.

We have not experienced any strikes, work stoppages or labor disputes that affected our operations and we consider our relations with our employees to be good.

LEGAL PROCEEDINGS

Given the nature of the insurance business, we are involved in numerous immaterial legal proceedings in our ordinary course of business, including being the plaintiff or defendant in litigation and arbitration. Such legal proceedings primarily involve claims on our insurance policies. For these legal proceedings, we have made provisions in our loss and outstanding claims reserves relying on professional advice from our internal legal advisers and our outside legal counsel retained on those matters. We believe, based on currently available information and after consultation with our outside legal counsel and internal legal advisers, having taken into account the reinsurance arrangements made with respect to the relevant insurance policies and the provisions made in our loss and outstanding claims reserves, the result of such proceedings, in the aggregate, will not have a material adverse effect on our results of operations or financial condition. As of the Latest Practicable Date, based on currently available information and after consultation with our legal advisers, we believe there were no legal proceedings pending or threatened against us which were not in the ordinary course of business and which could have a material adverse effect on our business, financial condition or results of operations.