The following discussion of our financial condition and results of operations should be read in conjunction with our audited combined financial information as of and for each of the three years ended 31 December 2005 and the six months ended 30 June 2006, including the notes thereto, and from our unaudited combined financial information as of and for the six months ended 30 June 2005 all included Appendix I of this prospectus. The financial statements have been prepared in accordance with accounting standards generally accepted in Hong Kong, which differ in certain material respects from generally accepted accounting principles in other jurisdictions, including the United States.

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.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following factors affect our results of operations and financial condition and the comparability of our results of operations between periods:

Competition in Hong Kong and the PRC

We operate in highly competitive markets. The insurance market in Hong Kong is a comparatively developed market with many competitive players. Competition in the Hong Kong market is based primarily on customer demand for insurance products, the types of products offered, price and distribution capability. In addition, a substantial portion of our Hong Kong direct written premiums is generated by motor insurance, which is a highly competitive segment. When market prices for such policies drop as a result of increased price competition or otherwise, our direct written premiums from such policies may decrease and we may elect not to engage in price competition with our competitors for certain products. In addition, we believe financial strength and claims-paying ability ratings issued by firms such as Standard & Poor's Rating Services, Fitch, Inc. and A.M. Best have also become an increasingly important factor in establishing the competitive position of insurance companies. Any changes in our ratings from such firms could impact our performance.

With respect to our PRC operations, we believe the general insurance market and potential for growth in the PRC is larger than in Hong Kong. However, pursuant to the PRC's entry into the WTO, competition from foreign insurance companies has increased in the PRC general insurance market. Some of these foreign competitors have stronger financial resources than we do and they may be able to fund expansion or withstand poor economic conditions more easily than we can. We anticipate increased competition as we expand our operations in the PRC as many of our existing competitors and new entrants will seek to sell general insurance products in the same cities and markets that we have identified. To remain competitive, we must develop new insurance products to satisfy customer needs and maintain attractive premium rates. In addition, we must respond to increases in downward premium pressure for our products to avoid an adverse impact on our margins.

Fluctuations in Claims Incurred and Product Mix

Claims incurred has been our largest expense in recent periods. Claims incurred refers to the sum of total claims sustained under the policies issued, whether paid or unpaid, and the associated expenses incurred to settle loss claims. We expect our claims incurred to be influenced by our ability to select profitable risks and to control ultimate claims and associated handling expenses, and we invest significant resources in these areas in an attempt to manage increases in claims incurred. Claims incurred may be influenced by other factors, including catastrophic events and our product mix. We maintain claims reserves to be applied against actual claims incurred. Claims reserves represent estimates determined by using actuarial projection techniques based on historical data. Because establishing reserves is an inherently uncertain process involving estimates, reserves need to be adjusted periodically. In the event we need to increase our claims reserves as a result of changes in our projections, our results of operations may be adversely affected.

Ability to Manage Expenses

Expenses incurred by us in Hong Kong and the PRC primarily include policy acquisition costs related to commission expenses to insurance intermediaries and personnel expenses directly related to the marketing and underwriting process less commission income from reinsurers, management expenses (such as administration expenses, salaries and amortisation expenses) and costs associated with opening new branches in the PRC in connection with our expansion strategy. Although we aim to control expenditures through our annual budget review and strict monitoring processes, certain costs and expenses are a function of market forces and outside of our direct control. Future fluctuations in our expense structure will impact our financial condition and results of operations.

As we plan to open numerous branches in the PRC in the next few years, we anticipate that expenses related to our expansion in the PRC will form a significant component of our capital expenditures. Currently, commissions paid by insurance companies to insurance intermediaries are deductible for taxation purposes, subject to a limit of 8% of the gross written premiums in the relevant year. To the extent commissions exceed 8% of our gross written premiums in the future, we will be unable to deduct such commissions, thereby increasing our expenses associated with our PRC operations.

Fluctuations in Equity Prices, Market Interest Rates and Property Values

Our investment portfolio forms an integral part of our business and our results of operations and financial condition are affected by the quality and performance of our investment portfolio. As of 31 December 2005 and 30 June 2006, the carrying value of our investment portfolio, which contains primarily equity securities, debt securities, investment properties and bank deposits, was HK$2,292 million and HK$3,317 million, respectively. Our results of operations are affected by fluctuations in equity prices, market interest rates and property values. We record our portfolio of equity securities on our balance sheet at fair value as determined as of the balance sheet date. 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. The value of our portfolio of equity securities is exposed to price risk, which is defined as the loss in fair value resulting from adverse changes in stock price.

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 portfolio. As such, changes in bank interest rates directly impact our deposit interest income. Fluctuations in interest rates may also affect the level and timing of recognition of gains and losses on debt securities held in our investment portfolio. A sustained period of lower interest rates would generally reduce our debt investment yields over time as higher-yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields, but would also increase realised and unrealised gains on our existing investments. Conversely, rising interest rates should over time increase our investment income, but may reduce the market value of our investment portfolio.

Changes in property values can also have a material impact on our financial condition and results of operations. As of 31 December 2005 and 30 June 2006, we held investment properties concentrated in the Hong Kong property market, valued at HK$929 million and HK$949 million, respectively, which represented approximately 40.6% and 28.6%, respectively, of our investment portfolio. We are subject to property price risk, principally related to the Hong Kong market, as a result of fluctuations in the value of investment properties that we hold.

Economic Conditions in the PRC

The PRC is currently undergoing an economic and demographic transformation, which we believe will continue to create significant opportunities in the PRC insurance market. In particular, the PRC government is transforming the economic system from one that is centrally-planned to one that is more market-oriented, and this has resulted in significant growth in the PRC economy over the past decade. Moreover, demographic studies suggest that, over the next decade, the expanding private sector in the PRC will continue to give rise to a middle class that has growing levels of disposable income, which we expect to also contribute to the continued growth of the PRC insurance industry. We believe that the quality and diversity of our products and our investment and underwriting risk management expertise, together with our experience in the Hong Kong market, position us to benefit from these developments.

Changes in Regulatory Environment

We operate in a heavily regulated industry and are subject to the supervision of insurance regulators in both Hong Kong and the PRC. In Hong Kong, the IA sets requirements for paid-up capital, solvency margin, fitness and properness of directors and controllers, actuarial review of liabilities, asset management and adequacy of reinsurance arrangements. Our operations in the PRC are regulated by the CIRC, which has authorised Ming An China to provide mandatory third-party motor insurance, which insurance companies without PRC company status cannot provide. We benefit from being one of 22 insurance companies with such authorisation as of 9 June 2006. Our operations in the PRC are subject to certain regulatory restrictions that do not apply to our Hong Kong operations. For example, we are required in the PRC to offer at least 50% of our reinsurance business to professional reinsurance companies incorporated in the PRC.

In addition, under the applicable CIRC regulations, investments by PRC insurance companies are limited to areas stipulated by the State Council. See the section headed "Supervision and Regulation — Use of Insurance Funds". Currently, due to existing foreign exchange regulations, substantially all of the investment assets of our PRC operations are held in bank deposits in the PRC, and our ability to diversify our portfolio is limited. We intend to apply for permission to invest our PRC-sourced premium income in

Hong Kong pursuant to the QDII scheme, which is currently being considered by the CIRC, but we cannot assure you that the scheme will be implemented by the CIRC or, if implemented, that we will be granted such permission on a timely basis or at all. In addition, due to the foreign exchange control regime in the PRC, Ming An China is unable to freely convert its capital funds, which exposes us to foreign exchange risk. These and similar regulations that restrict our ability to invest our assets freely and convert our assets into foreign currencies may adversely impact our ability to optimise our investment returns, diversify our investment portfolio and protect against foreign exchange risks, any of which could adversely impact our results of operation and financial condition.

Our ability to price our insurance products in the PRC is also directly and indirectly regulated by the CIRC to a significant extent. Pursuant to CIRC regulations, we must submit information on new insurance products to the CIRC for filing purposes or approval, depending on the product type/nature of the new insurance products, insurance products relating to mandatory insurance and the terms and premium rates of insurance products. We may incur significant costs and expenses to comply with, and our prospects may be adversely affected by, changes in applicable laws, rules and regulations, which may reduce our results of operations as well as affect our future growth.

BASIS OF PRESENTATION

We are regarded as a continuing entity resulting from the Reorganisation and the financial information has been prepared on the basis that the Company was the holding company of the Group throughout the relevant periods presented herein. The combined income statements, revenue accounts and cash flow statements include the results of operations and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the relevant periods, or since their respective dates of incorporation/establishment or acquisition, or up to the date of disposal, whichever period is shorter. The combined balance sheets as of 31 December 2003, 2004, 2005 and 30 June 2006 have been prepared to present the state of affairs of the companies now comprising the Group as if the current group structure had been in existence as of the respective dates.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our financial information. Our principal accounting policies, which are important for the understanding of our financial condition and results of operations, are set forth in details in note 2 to our financial statements, attached hereto as Appendix I. Critical accounting policies usually involve subjective assumptions and estimates, and complex judgments relating to accounting items such as asset value determination, income or profit recognition, cost or expense allocation and liability provisioning. In each case, the determination of these items requires management to make judgments based on information and financial data that may change in future periods. We believe the most complex and sensitive judgments, because of their significance to our financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from our estimates. The critical accounting policies adopted by us are described below.

Policy Acquisition Costs

Many general insurance companies in Hong Kong amortise or defer the costs related to acquiring policies, such as commissions paid to intermediaries, over the life of the policy. Unlike some of our competitors, we do not defer our acquisition costs. Instead, we recognise the entire amount of the costs associated with acquiring our policies in a given period during that period. As a result, during years when we experience high growth in written premiums, our underwriting results would be lower than if we deferred our acquisition costs. This is due to the fact that while a large amount of unearned premiums are deferred to subsequent years, the entire amount of the corresponding policy acquisition cost is recognised as an expense during the year in which the policy is underwritten.

Provision for Outstanding Claims

Provisions are recognised for liabilities of uncertain timing or amount. When we have a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of such obligations is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Insurance claims are recognised when they are incurred. Incurred claims arising in a year include the losses and related handling costs paid during the year and the change in the provision for outstanding claims during the year. Provision for outstanding claims falls into two categories: case reserves for reported claims and reserves for IBNR claims. Provision for outstanding claims is reported on an undiscounted basis.

We estimate reported claims on an individual basis, based on past experience of similar losses, the judgment of our claims handlers and the opinions of legal advisers and loss adjusters. 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.

IBNR is established to recognise the estimated cost of losses that have been incurred but not yet reported, together with the estimated costs necessary to bring the claims to final settlement. IBNR is estimated by using a range of standard actuarial projection techniques, such as the Bornhuetter-Ferguson method, as well as paid and incurred loss development methods.

As of each balance sheet date, we review our unexpired risks and carry out a liability adequacy test for each insurance portfolio on the basis of estimates of future claims and related claims handling expenses, premiums earned and investment income. A premium deficiency is recognised if the sum of expected claim costs and claim fling expenses exceeds related unearned premiums while considering the anticipated investment income.

Our provision for outstanding claims represents estimated liabilities in respect of case reserves for reported claims and IBNR after deducting amounts recoverable from reinsures.

Provision for Unexpired Risks

Provision for unexpired risks represents the excess of the estimated value of claims and related exposures likely to arise after the balance sheet date from contracts concluded before that date exceeding unearned premiums relating to those contracts. The amount of provision is made for each class of business individually. In other words, we do not offset potential losses of one class with potential profits on another.

Fair Value and Impairment of Available-for-Sale Securities

Available-for-sale securities are initially recognised at fair value. Unrealised gain or losses from changes in fair value are recognised in equity until the security is disposed of or impaired, at which time the cumulative unrealised gain or loss previously recognised in equity will be recognised on our income statement. When securities are interest-bearing, interest calculated using the effective interest method is recognised in the profit or loss account. We recognise or derecognise available-for-sale securities when we commit to purchase or sell the securities or when they expire.

The fair value of listed securities is based on the bid prices as at the balance sheet date. For unlisted securities where there is no active market, we establish fair value by using valuation techniques that are designed to provide reasonable estimates of prices that could be obtained in actual market transactions. These include reference to recent arm's-length transactions, reference to other securities that have substantially the same risk characteristics and discounted cash flow analysis.

Realisation of Deferred Tax Assets

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, respectively, representing the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Subject to limited exceptions, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, all deferred tax assets are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and taxable entity and are expected to be reversed either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses.

The amount of deferred tax recognised is calculated based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted as at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

RESULTS OF OPERATIONS

The following table sets forth selected financial information for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
	(HK$ in millions, except percentages)				
Gross written premiums[(1)]	1,173	1,133	1,100	602	569
Net earned premiums[(2)]	739	676	706	379	318
Net claims incurred	(443)	(368)	(153)	(153)	(57)
Net commission expenses	(132)	(123)	(123)	(60)	(64)
Business operating expenses	(145)	(156)	(169)	(90)	(119)
Change in net provision for unexpired risks	—	15	(12)	—	10
Underwriting profit	19	44	249	76	88
Revaluation (deficit)/surplus of investment properties	(28)	53	182	118	19
Other revenue	55	50	94	32	45
Other net income	42	27	26	8	49
Profit before taxation	77	167	534	225	195
Income tax (charge)/credit	(4)	18	36	(3)	(4)
Profit for the year/period	73	185	570	222	191
Dividends	—	—	—	—	—
Operating ratios:					
Loss ratio[(3)]	59.9%	52.2%	23.4%	40.4%	14.8%
Expense ratio[(4)]	37.5%	41.3%	41.4%	39.6%	57.5%
Combined ratio[(5)]	97.4%	93.5%	64.8%	80.0%	72.3%

(1) In the beginning of 2005, we began recognising undue long-term insurance premium reserves in relation to our PRC property business, which had the effect of increasing our gross written premiums in 2005. We did not recognise undue long-term insurance premium reserves in any period prior to 2005.
(2) In the beginning of 2005, we changed our method of calculating unearned premiums from the 1/24th method to the 1/365th method. As a result, we applied different methods of calculation for 2003 and 2004 than the methods applied for 2005 and the six months ended 30 June 2005 and 2006.
(3) Calculated as net claims incurred plus change in net provisions for unexpired risks divided by net earned premiums.
(4) Calculated as the sum of net commission expenses and business operating expenses divided by net earned premiums.
(5) Calculated as the sum of loss ratio and expense ratio.

Key Income Statement Items

Gross Written Premiums

Gross written premiums include gross premiums written from direct business that represents all business where the insurer has a direct contractual relationship with the insured who is not itself an insurer (including co-insurance business but excluding reinsurance business) and inward reinsurance business.

Provision for Unearned Premiums

Provision for unearned premiums is recognised to cover the proportion of retained premiums written in a year that relate to the period of risk from 1 January in the following year to the subsequent date of expiry of policies. Provision for unearned premiums is calculated on a time-apportioned basis.

Net Earned Premiums

Net earned premiums represents gross written premiums less premiums ceded to reinsurers plus the change in net provision for unearned premiums.

Net Claims Incurred

Net claims incurred include the losses and related handling costs paid and the change in the net provision for outstanding claims which falls into two categories: case reserves for reported claims and reserves for IBNR claims. With the passage of time, the net provision for outstanding claims may be adjusted, depending on the actual claims incurred in respect of policies previously provided for, as well as any revised estimation of the likelihood of further claims in respect of other policies previously provided for. In particular, the nature of long-tail policies is such that the appropriate amount of provision for outstanding claims may not be confirmed until several years have passed. A decrease in the net provision for outstanding claims results in a decrease in net claims incurred.

Provision for Unexpired Risks

Provision for unexpired risks represents the excess of estimated value of claims and related expenses likely to arise after the balance sheet date from contracts concluded before that date over and above unearned premiums relating to those contracts. The amount of provision is made for each class of business individually.

Net Commission Expenses

Net commission expenses represents gross commissions expenses to intermediaries less commission income from reinsurers.

Business Operating Expenses

Business operating expenses include management expenses and other operating expenses. Management expenses include administration expenses, salary expenses and amortisation expenses. Other operating expenses include sales tax, insurance protection funds and interest on reinsurance reserves retained.

Revaluation (Deficit)/Surplus of Investment Properties

Revaluation (deficit)/surplus of investment properties represents the unrealised loss or gain arising from a change in fair value of investment properties during the reporting period.

Other Revenue

Other revenue mainly comprises rental income, interest income and dividend income.

Other Net Income

Other net income mainly consists of realised and unrealised gains/(losses) on properties and investments in securities, net foreign exchange gains/(losses), and write backs of provisions for doubtful debts.

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Gross Written Premiums

Gross written premiums decreased 5.5% to HK$569 million for the six months ended 30 June 2006 from HK$602 million for the six months ended 30 June 2005 primarily due to a decrease in gross premium income of HK$13 million from our PRC motor insurance business. Such decrease in gross premium income from our PRC motor insurance business reflected Ming An China's decision to maintain motor premiums at higher rates than those of our competitors, which reduced our price competitiveness. Premium income from our PRC motor insurance business was also affected by the departure of some sales personnel, which we believe was due to concerns surrounding their income-generating ability due to: (a) our policy of maintaining motor premiums at higher rates than our competitors, which lowered sales volume and (b) concerns that Ming An China, as a foreign-invested insurance company, would be disadvantaged in the motor insurance business after the introduction of the PRC Automobile Road Accident Liability Compulsory Insurance Regulation in July 2006 because only insurance companies with PRC company status would be permitted to offer the required compulsory insurance coverage. By the time Ming An China obtained PRC company status for insurance regulatory purposes in May 2006, these sales personnel had already decided to leave. In addition, an accounting policy change took effect pursuant to which we recognised undue long-term insurance premium reserves of HK$37 million as income at the beginning of 2005 in relation to our property insurance segment in the PRC. Such policy change was in effect an adjustment for a difference between HKFRS and PRC GAAP in respect of mortgage insurance. If the policy had been applied consistently throughout the Track Record Period, there would have been no material impact on our financial results. The decreases in the motor and property business segments in the PRC were partially offset by a slight increase of HK$10 million in overall gross premium income generated from our Hong Kong business.

Net Earned Premiums

Net earned premiums decreased 16.1% to HK$318 million for the six months ended 30 June 2006 from HK$379 million for the six months ended 30 June 2005 primarily due to the fact that we changed our method of calculating unearned premiums from the 1/24th method to the 1/365th method since 1 January 2005. Under the 1/365th method, short-term policies carry forward less unearned premiums to the following year, as compared to the 1/24th method. Under our previous calculation method, premiums of our short-tail policies, such as those for cargo insurance, written in 2004 and deferred to 2005 were all earned in 2005. However, for short-tail policies written in 2005, under our new calculation method almost all premiums were earned in that year rather than being deferred to 2006. As a result of this change in calculation method, net earned premiums for the first six months of 2005 were higher than net earned premiums for the six months ended 30 June 2006. The decrease in gross written premiums in the first half of 2006 as compared with the same period in the previous year also contributed to the decrease in net earned premiums.

Net Claims Incurred

Net claims incurred decreased 62.7% to HK$57 million for the six months ended 30 June 2006 from HK$153 million for the six months ended 30 June 2005 primarily due to the release in 2006 of reserves for outstanding motor and employees' compensation claims relating to policies issued by our predecessor companies prior to the 2000 Integration. Given the passage of such a significant period of time (see "— Results of Operations — Net Claims Incurred"), our position in respect of the ultimate losses for these long-tail policies had become clearer by 2006 such that we felt it appropriate to release such reserves amount. In addition, as we continued our practice of decreasing our exposure to such high risk policies, we required less provisions for outstanding claims, another factor contributing to lower net claims incurred.

Net Commission Expenses

Net commission expenses increased by 6.7% to HK$64 million for the six months ended 30 June 2006 from HK$60 million for the six months ended 30 June 2005 primarily due to increases in gross commission expenses paid to our intermediaries associated with the motor insurance segment in Hong Kong. In addition, we experienced a decrease in commission income arising from our decision not to renew a proportional motor reinsurance treaty after the first quarter of 2005. This increase was partially offset by reinsurance commissions generated from a proportional reinsurance treaty arranged in the first half of 2006 in connection with our marine business.

Business Operating Expenses

Business operating expenses increased by 32.2% to HK$119 million for the six months ended 30 June 2006 from HK$90 million for the six months ended 30 June 2005 primarily due to expenses associated with the opening of new branches of Ming An China in the PRC in the first half of 2006. In addition, whereas in previous years we recognised management fees payable to our holding company on a cash basis, for the six months ended 30 June 2006 we began accruing this expense.

Change in Net Provision for Unexpired Risks

Change in net provision for unexpired risks increased to positive HK$10 million for the six months ended 30 June 2006 from nil for the six months ended 30 June 2005. The change was primarily due to a release of HK$14 million in net provision for unexpired risks of employees' compensation business since as of 30 June 2006, we estimated that the ultimate losses associated with unearned premiums at the same date would be less than the provision for unexpired risks estimated as of 31 December 2005. The release was partially offset by a HK$4 million increase in net provision for unexpired risks of our public liability segment as we estimated that the ultimate loss ratio associated with the unearned premiums at 30 June 2006 would exceed 100%. In the previous year, we did not make any provision for unexpired risks for our public liability segment.

Underwriting Profit

As a result of the above factors, underwriting profit increased by 15.8% to HK$88 million for the six months ended 30 June 2006 from HK$76 million for the six months ended 30 June 2005.

Revaluation (Deficit)/Surplus of Investment Properties

Revaluation surplus of investment properties decreased by 83.9% to HK$19 million for the six months ended 30 June 2006 from HK$118 million for the six months ended 30 June 2005 primarily due to a significantly lower revaluation surplus from investment properties for the six months ended 30 June 2006 as compared to the six months ended 30 June 2005 associated with slower growth in the market prices for Hong Kong real estate in the first half of 2006 as compared to the same period in 2005.

Other Revenue

Other revenue increased 40.6% to HK$45 million for the six months ended 30 June 2006 from HK$32 million for the six months ended 30 June 2005 primarily due to a HK$12 million increase in interest income from bank deposits due to the increase in average yield from 1.0% during the first half of 2005 to 3.5% during the first half of 2006, which was a result of increased market fixed deposit interest rates in the latter period. In addition, interest income from bank deposits was higher in the first half of 2006 compared to the same period in 2005 because of an increase in the amount of our bank deposits. An increase in rental income due to an increase in rental rates at Ming An Plaza, together with the recovery of a loan written off previously was partially offset by a decrease in dividend income received from PCIH.

Other Net Income

Other net income increased 512.5% to HK$49 million for the six months ended 30 June 2006 from HK$8 million for the six months ended 30 June 2005 primarily due to a HK$38 million increase in gain on a one-time disposal of shares of Resources Shajiao C Investments Limited ("Shajiao C") to China Resources Power Performance Limited as part of our strategy to optimise our investment portfolio by focusing on investments with higher liquidity. Shajiao C is an investment holding company. Its sole investment is its 40% interest in a company engaged in the operation of a power station in the PRC. The Group's investment in Shajiao C began in 1993 and the cost of its investment included a shareholder's loan of US$8.5 million and HK$250 in share capital for 250 ordinary shares of HK$1 each, which represented 2.5% of the total issued shares of Shajiao C. Shajiao C's turnover represented the dividend income received and receivable from the company operating the power station. For the three years ended 31 December 2005, the turnover of Shajiao C amounted to HK$0, HK$176.8 million and HK$933.8 million, respectively, and the net profit (loss) of Shajiao C was (HK$1.32 million), HK$174.7 million and HK$944.4 million, respectively.

Profit Before Taxation

Our profit before taxation decreased 13.3% to HK$195 million for the six months ended 30 June 2006 from HK$225 million for the six months ended 30 June 2005 primarily due to a significant decrease in revaluation surplus of investment properties compared to the six months ended 30 June 2005 associated with slower growth in the market prices for Hong Kong real estate in the first half of 2006. The decrease was partially offset by an increase in our underwriting profit of 15.8% to HK$88 million as well as a HK$38 million gain on a one-time disposal of shares of Resources Shajiao C Investments Limited to China Resources Power Performance Limited as part of our strategy to optimise our investment portfolio by focusing on investments with higher liquidity.

Income Tax (Charge)/Credit

Our income tax charge increased 33.3% to HK$4 million for the six months ended 30 June 2006 from HK$3 million for the six months ended 30 June 2005 primarily due to the fact that Ming An China earned higher taxable profits for the six months ended 30 June 2006 as compared to the six months ended 30 June 2005. No current provision for profits tax was made in the financial statements of Ming An Hong Kong during either of the two periods because the taxable profits generated were offset by tax losses carried forward from previous years. As of 30 June 2006, we had accumulated tax losses of HK$650 million that had not been recognised as deferred tax assets in Ming An China's financial statements. As we have estimated the future taxable profit that can be generated to offset the tax losses based on our internal budgeting, the directors consider that, apart from the deferred tax assets of HK$69 million already recognized in the financial statements, it is not practicable to estimate further the future taxable profits that will allow the deferred tax assets to be recovered.

Profit for the Year

As a result of the above factors, profit for the year decreased 14.0% to HK$191 million for the six months ended 30 June 2006 from HK$222 million for the six months ended 30 June 2005.

2005 Compared to 2004

Gross Written Premiums

Gross written premiums decreased 3.0% to HK$1,100 million in 2005 from HK$1,133 million in 2004 primarily due to a significant decrease in our motor and employees' compensation insurance segments in Hong Kong as strong competition pushed market premiums lower to a level that we believed did not adequately compensate us for the risks associated with these two businesses. In response to such increased pricing pressure, we maintained our premium structure, which resulted in fewer motor and employees' compensation policies underwritten in 2005 as compared to 2004.

Net Earned Premiums

Net earned premiums increased 4.4% to HK$706 million in 2005 from HK$676 million in 2004 primarily due to our revised method of calculating unearned premiums as well as the higher retention rate of our motor insurance business due to our management's judgement that the quality of our motor insurance portfolio had improved since 2004 and related decision not to renew a motor reinsurance treaty in 2005. The increase was partially offset by the decrease in gross written premiums.

Net Claims Incurred

Net claims incurred decreased 58.4% to HK$153 million in 2005 from HK$368 million in 2004 primarily due to an increase in outstanding employees' compensation claims reserves relating to the termination of a reinsurance treaty with China Re in 2004. In addition, the ultimate losses of policies issued by our predecessor companies prior to the 2000 Integration became clearer and less claims reserves were required.

Net Commission Expenses

There was no significant change in net commission expenses in 2005 as compared to 2004. While gross commission expenses to intermediaries decreased in 2005 as compared to 2004 due to the decrease in gross written premiums, our commission income from reinsurers also decreased because we decided not to renew a proportional treaty for our motor insurance segment at the end of the first quarter of 2005 as a result of our management's judgment that the quality of our motor insurance portfolio had improved since 2004.

Business Operating Expenses

Business operating expenses increased 8.3% to HK$169 million in 2005 from HK$156 million in 2004. Business operating expenses associated with our PRC operations increased 36.6% to HK$56 million in 2005 primarily due to increased expenditures in connection with the establishment of the Ming An China headquarters in Shenzhen.

Change in Net Provision for Unexpired Risks

Change in net provision for unexpired risks changed to negative HK$12 million in 2005 from positive HK$15 million in 2004. The change was due to the fact that as of 31 December 2005, we estimated that the ultimate losses associated with unearned premiums at the same date would be more than the provision for unexpired risks estimated as of 31 December 2004 for employees' compensation business.

Underwriting Profit

As a result of the above factors, underwriting profit increased 465.9% to HK$249 million in 2005 from HK$44 million in 2004.

Revaluation (Deficit)/Surplus of Investment Properties

Revaluation surplus of investment properties increased by 243.4% to HK$182 million in 2005 from HK$53 million in 2004 primarily due to the strong performance of the real estate market in Hong Kong in 2005 and related increase in property market prices after recovery from the 2003 SARS outbreak.

Other Revenue

Other revenue increased 88.0% to HK$94 million in 2005 from HK$50 million in 2004 primarily due to an increase in interest income from bank deposits resulting from rising interest rates and a HK$171 million increase in the balance of bank deposits. In addition, we benefited from an increase in interest income received from bonds as a result of more investments in bonds with higher yields and an increase in dividends received from PCIH, which paid more dividends in 2005. In addition, we received a HK$28 million one-time accumulated dividend payment from an unlisted portfolio company that contributed to the increase in other revenue.

Other Net Income

Other net income decreased 3.7% to HK$26 million in 2005 from HK$27 million in 2004. This decrease was comprised of a HK$10 million decrease in gains on disposal of securities classified as available-for-sale and a HK$7 million increase in our net foreign exchange loss. The decrease in other net income was partially offset by a HK$9 million increase in property-related income associated with our disposal of properties and impairment of land and buildings as well as by the receipt of HK$7 million in recovery of bad debts.

Profit Before Taxation

Our profit before taxation increased 219.8% to HK$534 million in 2005 from HK$167 million in 2004 primarily due to a 465.9% increase in underwriting profit to HK$249 million in 2005 from HK$44 million in 2004, resulting from a 58.4% decrease in net claims incurred and our change in method of calculating provisions for unearned premiums, which increased premiums earned in 2005. The increase was also a result of a significant revaluation surplus arising from investment properties.

Income Tax (Charge)/Credit

Our income tax credit increased 100.0% to HK$36 million in the year ended 31 December 2005 from HK$18 million in 2004 as we anticipated, based on our internal budgeting, that more taxable profits would be generated in future years which could be used to offset the tax loss.

Profit for the Year

As a result of the above factors, profit for the year increased 208.1% to HK$570 million in 2005 from HK$185 million in 2004.

2004 Compared to 2003

Gross Written Premiums

Gross written premiums decreased 3.4% to HK$1,133 million in 2004 from HK$1,173 million in 2003 primarily due to fewer policies underwritten in connection with our motor and employees' compensation insurance segments in Hong Kong as strong competition lowered market premiums to a level that we believed did not adequately compensate us for the risk associated with these two businesses. In response to such increased pricing pressure, we maintained our premium structure, which resulted in fewer motor and employees' compensation policies underwritten in 2004 as compared to 2003.

Net Earned Premiums

Net earned premiums decreased 8.5% to HK$676 million in 2004 from HK$739 million in 2003 primarily due to the decrease in gross written premiums in the current period and our decision to stop writing certain employees' compensation and motor policies in 2003 that were written by our predecessor companies, as we continued to restructure our business after the 2000 Integration, resulting in the decrease in premiums carried forward and earned in 2004.

Net Claims Incurred

Net claims incurred decreased 16.9% to HK$368 million in 2004 from HK$443 million in 2003 primarily due to a significant decrease in net claims incurred from our liability segment, which resulted from a release of excess reserves for outstanding claims. In addition, the number of new claims of employees' compensation insurance decreased in 2004 as compared to 2003, as a result of our continued refinement of our risk selection process, which also led to the decreased gross written premiums of our liability segment in 2004.

Net Commission Expenses

Net commission expenses decreased 6.8% to HK$123 million in 2004 from HK$132 million in 2003 primarily due to the decrease in gross written premiums.

Business Operating Expenses

Business operating expenses increased 7.6% to HK$156 million in 2004 from HK$145 million in 2003 primarily due to the payment of management fees to our holding company and an increase in staff costs.

Change in Net Provision for Unexpired Risks

Change in net provision for unexpired risks increased to positive HK$15 million in 2004 from nil in 2003. The change was due to the fact that as of 31 December 2004, we estimated that the ultimate losses associated with unearned premiums at the same date would be less than the provision for unexpired risks estimated as of 31 December 2003 for employees' compensation business.

Underwriting Profit

As a result of the above factors, underwriting profit increased 131.6% to HK$44 million in 2004 from HK$19 million in 2003.

Revaluation (Deficit)/Surplus of Investment Properties

We recognised a surplus on revaluation of investment properties of approximately HK$53 million in 2004 as compared to a deficit on revaluation of investment properties of HK$28 million in 2003. We recognised a deficit in 2003 primarily due to the SARS outbreak, which led to a dramatic fall in property prices in Hong Kong. The surplus recognised in 2004 was due to the steep increase in property prices that accompanied the economic recovery and a reversal of provision for impairment losses of properties that we had increased in 2003.

Other Revenue

Other revenue decreased 9.1% to HK$50 million in 2004 from HK$55 million in 2003 primarily due to a HK$4 million decrease in rental revenue associated with rental income from Ming An Plaza and other investment properties, resulting from the disposal of three shops in the second half of 2003. We also recorded a HK$4 million decrease in interest income from bonds resulting from the sale of HK$133 million in bonds in July 2003. The total HK$8 million decrease was partially offset by a HK$4 million increase in dividend income received from PCIH.

Other Net Income

Other net income decreased 35.7% to HK$27 million in 2004 from HK$42 million in 2003 primarily due to a HK$17 million decrease in gain on disposal of investment properties recorded in 2003. In 2003, we disposed of 11 properties, which accounted for the comparatively higher gain on disposal. Such disposal was effected to reduce our number of investment properties held, as we had absorbed a large number of properties on restructuring in 2000. In addition, a HK$13 million decrease in gain on disposal of securities held for trading and a HK$13 million decrease in unrealised gain on securities held for trading also contributed to the decrease in other net income. The decrease was partially offset by a HK$25 million increase in reversal of impairment loss of leasehold land held for our own use.

Profit Before Taxation

Our profit before taxation increased 116.9% to HK$167 million in 2004 from HK$77 million in 2003 primarily due to an increase in underwriting profit of 131.6% to HK$44 million in 2004 from HK$19 million in 2003 primarily as a result of lower net claims incurred in 2004. In addition, we experienced a significant revaluation surplus arising from investment properties in 2004.

Income Tax (Charge)/Credit

Income tax charges decreased to an income tax credit HK$18 million in 2004 from an income tax charge of HK$4 million in 2003 as we anticipated, based on our internal budgeting, that at the end of 2004 our operations would continue to be profitable, thereby allowing us to bring tax losses from previous years forward to offset tax liabilities in respect of taxable profits generated in subsequent years.

Profit for the Year

As a result of the above factors, profit for the year increased 153.4% to HK$185 million in 2004 from HK$73 million in 2003.

Operating Ratios

The general insurance industry uses the combined ratio as a measure of underwriting profitability. The combined ratio is the sum of the loss ratio and the expense ratio. Insurers having a combined ratio greater than 100% suffer an underwriting loss.

	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%**

Our combined ratio decreased to 72.3% for the six months ended 30 June 2006 from 80.0% for the six months ended 30 June 2005 primarily due to a decrease in our loss ratio in Hong Kong resulting from the one-time release of certain provisions for outstanding motor and employees' compensation claims in 2006 and more stringent underwriting policies. The release of such provisions was made as the ultimate losses for the relating long-tail motor and employees' compensation policies became clearer. The decrease in our overall loss ratio was partially offset by an increase in our expense ratio from 39.6% for the six months ended 30 June 2005 to 57.5% for the six months ended 30 June 2006. In Hong Kong and the PRC, our expense ratio increased because we had lower net earned premiums in the six months ended 30 June 2006 as compared to the same period in 2005 as a result of changing our method of calculating unearned premiums from the 1/24th method to the 1/365th method in 2005. In addition, we previously recognised staff bonuses and the management fee paid to our holding company on a cash basis but began accruing these expenses beginning in 2006. Thus, the expenses of 2005 and the six months ended 30 June 2006 were both paid and accrued in the first half of 2006.

Our combined ratio decreased from 93.5% in 2004 to 64.8% in 2005 primarily as a result of our Hong Kong operations and the one-time release of certain provisions for outstanding motor and employees' compensation claims in late 2005 and, to a lesser extent, more restrictive underwriting policies that we adopted in late 2003. Such changes were partly responsible for a significant decrease in our loss ratio from 52.2% in 2004 to 23.4% in 2005. Our termination of a reinsurance treaty in 2004 also contributed to the decrease in our loss ratio in 2005, as reinsurance recoverable decreased in 2004 with a resulting increase in net claims incurred. In 2005, there was no similar increase in net claims incurred, which, when coupled with the reduced claims reserves required, led to a significant drop in net claims incurred. The decrease in our overall loss ratio was partially offset by an increase in our loss ratio in the PRC resulting from our change in calculation method of IBNR reserves, which we calculate according to actuarial methods rather than on a percentage of claims paid. Our overall expense ratio was stable during the two periods, though our expense ratio in the PRC increased to 46.7% in 2005 from 36.8% in 2004 due to expenses associated with setting up the headquarters for Ming An China in 2005.

Our combined ratio decreased slightly from 97.4% in 2003 to 93.5% in 2004 due to a decrease in our loss ratio from 59.9% to 52.2% in 2003 and 2004, respectively, primarily due to a decrease in net claims incurred from our use of tighter underwriting policies in Hong Kong. Since 2002, Ming An Hong Kong significantly reduced the volume of construction-related employees' compensation insurance, which is long-tail in nature and produced unsatisfactory underwriting results in the past. The decrease in our overall loss ratio was partially offset by an increase in our loss ratio in the PRC resulting from an increase in net claims incurred in connection with an increase in gross written premiums in 2004, as well as in connection with a few large net claims incurred in the fire and motor classes, which in turn led to increased IBNR reserves and the increased loss ratio. Such decrease was offset by an increase in our expense ratio from 37.5% in 2003 to 41.3% in 2004 due primarily to management fees paid to our holding company.

RESULTS OF SEGMENT OPERATIONS

For the six months ended 30 June 2006, our four leading product lines in Hong Kong were marine, property, liability and motor insurance. In the PRC, our two major product lines are property and motor insurance. The following table sets forth the share each segment represents as a percentage of our total gross written premiums for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
Overall:					
Motor	30.8%	32.8%	28.6%	25.4%	22.5%
Property	24.1	23.5	27.9	33.9	31.3
Liability	24.0	21.5	20.7	16.8	18.6
Marine	16.1	17.1	17.7	18.8	20.9
Accident and health	5.0	5.1	5.1	5.1	6.7
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Hong Kong:					
Motor	30.4%	31.6%	27.4%	24.8%	21.6%
Property	17.5	16.6	17.6	22.6	23.8
Liability	27.7	25.4	26.2	21.7	22.1
Marine	18.5	20.3	22.3	24.1	24.3
Accident and health	5.9	6.1	6.5	6.8	8.2
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
PRC:					
Motor	32.8%	37.9%	32.2%	27.1%	25.8%
Property	60.5	55.2	60.6	65.4	60.3
Liability	3.9	3.9	3.4	3.1	5.2
Marine	2.8	2.5	3.4	3.8	7.8
Accident and health	–	0.5	0.4	0.6	0.9
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Business operating expenses include management expenses and other operating expenses. While other operating expenses are directly related to our respective segments, management expenses must be allocated to each segment on some basis.

Management expenses, which include administration expenses, salary expenses and amortisation expenses, are allocated proportionately to the combined revenue account and combined income statement based on the proportion of staff attributable to insurance operations and investment and other activities. Management expenses allocated to the combined revenue account relate to insurance operations activities and include expenses incurred from sales departments, insurance operation departments and back offices. We consider the following factors when allocating management expenses to our business segments: direct written premiums, gross claims paid, number of staff devoted to underwriting and claims handling. The allocation of management expenses across our business segments relies on the judgment of our management and the relative importance allocated by management to the various factors set forth above for any particular period.

Motor

The following table sets forth selected financial information for our motor insurance segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
	(HK$ in millions, expect percentages)				
Gross written premiums	361	371	314	153	128
Net earned premiums[(1)]	285	281	283	146	132
Net claims incurred	(33)	(127)	(117)	(79)	(10)
Net commission expenses	(75)	(73)	(71)	(31)	(36)
Business operating expenses	(35)	(41)	(47)	(23)	(26)
Segment result	142	40	48	13	60
Growth rate of gross written premiums	—	2.8%	(15.4)%	—	(16.3)%
Loss ratio	11.6%	45.2%	41.3%	54.1%	7.6%
Combined ratio	50.2%	85.8%	83.0%	91.1%	54.5%

(1) In the beginning of 2005, we changed our method of calculating unearned premiums, from the 1/24th method to the 1/365th method. As a result, we applied different methods of calculation for 2003 and 2004 than the methods applied for 2005 and the six months ended 30 June 2005 and 2006.

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Gross written premiums from our motor insurance segment decreased 16.3% to HK$128 million for the six months ended 30 June 2006 from HK$153 million for the six months ended 30 June 2005 primarily due to greater competition in 2006 compared to 2005 as more players entered the market for motor insurance in 2006 in both Hong Kong and the PRC. Many of these new entrants adopted a low price strategy to attract customers which forced us to slightly lower premium rates to compete and resulted in a 5.3% decrease in our average premium per policy for motor insurance in Hong Kong as compared to 2005. The departure of certain sales personnel from Ming An China in May and June 2006 due to the fact that Ming An China had not yet obtained CIRC approval to operate as an insurance company with PRC status also contributed to the decrease in gross written premiums for the period. In addition, numerous competitors began increasing their commissions to intermediaries and our decision not to match these higher commission rates resulted in the loss of certain customers and a decrease in gross written premiums. Gross written premiums from our motor segment decreased by 10.9% in Hong Kong and by 30.2% in the PRC for the six months ended 30 June 2006 as compared to the six months ended 30 June 2005.

Net earned premiums from our motor segment decreased 9.6% to HK$132 million for the six months ended 30 June 2006 from HK$146 million for the six months ended 30 June 2005 primarily due to a HK$25 million decrease in gross written premiums. The decrease was partially offset by a HK$11 million decrease in premiums ceded to reinsurers relating to one motor reinsurance treaty that expired in the first quarter of 2005 and that we decided not to renew.

Net claims incurred from our motor segment decreased 87.3% to HK$10 million for the six months ended 30 June 2006 from HK$79 million for the six months ended 30 June 2005 primarily due to releases for excess outstanding claims reserves relating to outstanding policies as the ultimate losses for these long-tail policies became clearer and we continued our practice of decreasing our exposure to such high risk policies. The decrease in our net earned premiums also contributed to the decrease in net claims incurred.

Net commission expenses from our motor segment increased 16.1% to HK$36 million for the six months ended 30 June 2006 from HK$31 million for the six months ended 30 June 2005 primarily due to a decrease in commission income from reinsurers as a proportional reinsurance treaty was not renewed after the first quarter of 2005.

As a result of the above factors, the segment result of our motor segment increased 361.5% to an underwriting profit of HK$60 million for the six months ended 30 June 2006 from an underwriting profit of HK$13 million for the six months ended 30 June 2005.

2005 Compared to 2004

Gross written premiums from our motor segment decreased 15.4% to HK$314 million in 2005 from HK$371 million in 2004 primarily due to a HK$64 million decrease in gross written premiums from the Hong Kong market resulting from the more intense competition in 2005 as compared to 2004. As a result, our average premium per policy for motor insurance in Hong Kong decreased by 7.7% from 2004 to 2005 and the number of motor insurance policies we issued decreased by 15.4%.

Net earned premiums from our motor segment increased 0.7% to HK$283 million in 2005 from HK$281 million in 2004. Net earned premiums increased because a large portion of the HK$57 million decrease in gross written premiums was offset by a HK$45 million decrease in premiums ceded to reinsurers and a HK$14 million increase in change in net provision for unearned premiums. The decrease in premiums ceded to reinsurers was the result of a proportional treaty that we did not renew in the second quarter of 2005. In addition, we revised our method of calculating unearned premiums from the 1/24th method to the 1/365th method, which also contributed to the increase in net earned premiums.

Net claims incurred from our motor segment decreased 7.9% to HK$117 million in 2005 from HK$127 million in 2004 primarily due to a HK$29 million decrease in net claims paid due to a decrease in the number of motor insurance policies written as we adopted a more conservative underwriting strategy in recent years. The decrease in net claims paid was partially offset by a HK$20 million decrease in change in net provision for outstanding claims.

Net commission expenses from our motor segment decreased 2.7% to HK$71 million in 2005 from HK$73 million in 2004 primarily due to a decrease in commission expenses by HK$11 million due to a decrease in the number of motor insurance policies written, while commission income received from reinsurers decreased by HK$10 million due to a HK$45 million decrease in premiums ceded to reinsurers from 2004 to 2005.

As a result of the above factors, the segment result of our motor segment increased 20.0% to an underwriting profit of HK$48 million in 2005 from an underwriting profit of HK$40 million in 2004.

2004 Compared to 2003

Gross written premiums from our motor segment increased 2.8% to HK$371 million in 2004 from HK$361 million in 2003 primarily due to a HK$18 million increase in gross written premiums from our motor segment in the PRC market. The increase was partially offset by a HK$8 million decrease in gross written premiums from the motor segment in the Hong Kong market due to a 4.4% decrease in average premium per policy for our motor business in response to competition from other players in the Hong Kong market.

Net earned premiums from our motor segment decreased 1.4% to HK$281 million in 2004 from HK$285 million in 2003 primarily due to a HK$34 million decrease in change in net provision for unearned premiums. As the amount of written premiums in 2002 far exceeded the amount of premiums written in 2003, a large amount of unearned premiums was carried forward to 2003, which in turn increased earned premiums in 2003. The decrease was partially offset by a HK$10 million increase in gross written premiums and a HK$19 million decrease in premium ceded to reinsurers as our retention of claim amounts for an excess of loss treaty increased.

Net claims incurred from our motor segment increased 284.8% to HK$127 million in 2004 from HK$33 million in 2003 primarily due to a HK$123 million decrease in change in net provision for outstanding claims from 2003 to 2004, as we performed our first thorough review of case claims since the 2000 Integration in 2003, resulting in a larger release of claims in 2003 as compared to 2004.

Net commission expenses from our motor segment decreased 2.7% to HK$73 million in 2004 from HK$75 million in 2003 primarily due to a HK$6 million increase in commission income because we replaced a quota share treaty with a lower commission rate with a new quota share treaty with a higher commission rate in 2004. The increase in commission income was partially offset by a HK$4 million increase in gross commission expenses due to an increase in average commission rates for our motor segment from 2003 to 2004.

As a result of the above factors, the segment result of our motor segment decreased 71.8% to an underwriting profit of HK$40 million in 2004 from an underwriting profit of HK$142 million in 2003.

Property

The following table sets forth selected financial information for our property segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
	(HK$ in millions, except percentages)				
Gross written premiums	283	266	307	204	178
Net earned premiums[1]	91	90	91	46	44
Net claims (incurred)/recovered	(37)	(19)	(35)	(22)	7
Net commission income	8	10	8	6	2
Business operating expenses	(42)	(43)	(50)	(25)	(33)
Segment results	20	38	14	5	20
Growth rate of gross written premiums	—	(6.0)%	15.4%	—	(12.7)%
Loss ratio	40.7%	21.1%	38.5%	47.8%	(15.9)%
Combined ratio	78.0%	57.8%	84.7%	89.1%	54.5%

(1) In the beginning of 2005, we changed our method of calculating unearned premiums, from the 1/24th method to the 1/365th method. As a result, we applied different methods of calculation for 2003 and 2004 than the methods applied for 2005 and the six months ended 30 June 2005 and 2006.

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Gross written premiums from our property segment decreased 12.7% to HK$178 million for the six months ended 30 June 2006 from HK$204 million for the six months ended 30 June 2005 primarily due to a change in accounting policy pursuant to which we recognised undue long term insurance premium reserves of HK$37 million as income at the beginning of 2005 in connection with our PRC property business. If not for such change in accounting policy, our gross written premiums would have increased by HK$11 million in the first six months of 2006 as compared to the same period in 2005. A substantial portion of this premium income was generated through our newly established financial institution channel.

Net earned premiums from our property segment decreased 4.3% to HK$44 million for the six months ended 30 June 2006 from HK$46 million for the six months ended 30 June 2005 primarily due to a decrease in gross written premiums.

Net claims incurred from our property segment decreased 131.8% to HK$7 million for the six months ended 30 June 2006 from HK$22 million for the six months ended 30 June 2005 primarily due to a release of excess reserves for outstanding claims provided in prior years.

Net commission income from our property segment decreased 66.7% to HK$2 million for the six months ended 30 June 2006 from HK$6 million for the six months ended 30 June 2005 primarily due to an increase in gross commission expenses as more business was introduced by banks and the commission rate for banks is higher than for other intermediaries.

As a result of the above factors, the segment result of our property segment increased 300.0% to an underwriting profit of HK$20 million for the six months ended 30 June 2006 from an underwriting profit of HK$5 million for the six months ended 30 June 2005.

2005 Compared to 2004

Gross written premiums of our property segment increased 15.4% to HK$307 million in 2005 from HK$266 million in 2004 primarily due to an increase in the number of major customers, and due to a change in accounting policy as we recognised HK$39 million in undue long term insurance premium reserves as income at the beginning of 2005 in connection with our PRC property business.

Net earned premiums from our property segment increased 1.1% to HK$91 million in 2005 from HK$90 million in 2004 primarily due to an increase in gross written premiums for the segment.

Net claims incurred from our property segment increased 84.2% to HK$35 million in 2005 from HK$19 million in 2004 primarily due to a change in benchmark in relation to our actuarial method in assessing IBNR.

Net commission income from our property segment decreased by 20.0% to HK$8 million in 2005 from HK$10 million in 2004 primarily due to a higher retention rate of our property insurance, which led to less commission income from reinsurers.

As a result of the above factors, the segment result of our property segment decreased 63.2% to an underwriting profit of HK$14 million in 2005 from an underwriting profit of HK$38 million in 2004.

2004 Compared to 2003

Gross written premiums from our property segment decreased 6.0% to HK$266 million in 2004 from HK$283 million in 2003 primarily due to a HK$12 million decrease in gross written premiums from inward business as we decided to stop accepting additional inward treaties from 2004 onwards.

Net earned premiums from our property segment decreased 1.1% to HK$90 million in 2004 from HK$91 million in 2003 primarily due to a decrease in gross written premiums for the segment.

Net claims incurred from our property segment decreased 48.6% to HK$19 million in 2004 from HK$37 million in 2003 primarily due to the non-renewal in 2004 of an unprofitable inward reinsurance treaty for which we incurred claims in 2003.

Net commission income increased 25.0% to HK$10 million in 2004 from HK$8 million in 2003 primarily due to a decrease in gross written premiums and a corresponding decrease in gross commission expenses. In addition, gross commission expenses in 2004 decreased as a result of the non-renewal of an inward reinsurance treaty for which we paid commission expenses in 2003.

As a result of the above factors, the segment result of our property segment increased 90.0% to an underwriting profit of HK$38 million in 2004 from an underwriting profit of HK$20 million in 2003.

Liability

The following table sets forth selected financial information for our liability segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
	(HK$ in millions, except percentages)				
Gross written premiums	282	244	228	101	106
Net earned premiums[(1)]	215	150	148	80	67
Net claims (incurred)/recovered	(310)	(164)	45	(25)	(35)
Net commission expenses	(33)	(27)	(28)	(19)	(17)
Change in net provision for unexpired risks	—	15	(12)	—	10
Business operating expenses	(34)	(35)	(33)	(19)	(27)
Segment results	(162)	(61)	120	17	(2)
Growth rate of gross written premiums	—	(13.5)%	(6.6)%	—	5.0%
Loss ratio	144.2%	99.3%	(22.3)%	31.3%	37.3%
Combined ratio	175.3%	140.7%	18.9%	78.8%	103.0%

(1) In the beginning of 2005, we changed our method of calculating unearned premiums, from the 1/24th method to the 1/365th method. As a result, we applied different methods of calculation for 2003 and 2004 than the methods applied for 2005 and the six months ended 30 June 2005 and 2006.

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Gross written premiums from our liability segment increased 5.0% to HK$106 million for the six months ended 30 June 2006 from HK$101 million for the six months ended 30 June 2005 primarily due to an increase in business with a major property management company in Hong Kong.

Net earned premiums from our liability segment decreased 16.3% to HK$67 million for the six months ended 30 June 2006 from HK$80 million for the six months ended 30 June 2005 primarily due to our adoption of a new accounting method in 2005 to calculate provisions for unearned premiums, which increased the premiums earned in 2005. The decrease in net earned premiums also resulted in part due to a HK$3 million increase in premiums ceded to reinsurers.

Net claims incurred from our liability segment increased 40.0% to HK$35 million for the six months ended 30 June 2006 from HK$25 million for the six months ended 30 June 2005 primarily due to a HK$37 million increase in provision for outstanding claims reserve for our public liability business, which was partially offset by a release of excess outstanding claims reserves and a decrease in net claims paid for our employees' compensation business, both of which occurred as a result of the improved quality of our employees' compensation insurance written in recent years.

Net commission expenses from our liability segment decreased 10.5% to HK$17 million for the six months ended 30 June 2006 from HK$19 million for the six months ended 30 June 2005 primarily due to a HK$1.4 million increase in commission income resulting from a HK$3 million increase in premiums ceded to reinsurers.

Change in net provision for unexpired risks changed to positive HK$10 million for the six months ended 30 June 2006 from nil for the six months ended 30 June 2005 primarily due to a release of HK$14 million net provision for unexpired risks of employees' compensation business. As of 30 June 2006, we estimated that the ultimate losses associated with unearned premiums at the same date would be less than the provision for unexpired risks estimated as of 31 December 2005. The release was offset by a HK$4 million increase in net provision for unexpired risks of our public liability segment as we estimated that the ultimate loss ratio associated with the unearned premiums at 30 June 2006 would exceed 100%. In the previous year, we did not make any provision for unexpired risks for our public liability segment.

As a result of the above factors, our liability segment decreased 111.8% to an underwriting loss of HK$2 million for the six months ended 30 June 2006 from an underwriting profit of HK$17 million for the six months ended 30 June 2005.

2005 Compared to 2004

Gross written premiums from our liability segment decreased 6.6% to HK$228 million in 2005 from HK$244 million in 2004 primarily due to a HK$8 million decrease in gross written premiums from our employees' compensation business and a HK$9 million decrease in gross written premiums from our public liability business because we did not reduce our premium rates as much as our competitors and thus certain insurance policies were not renewed.

Net earned premiums from our liability segment decreased 1.3% to HK$148 million in 2005 from HK$150 million in 2004 primarily due to a decrease in gross written premiums which was partially offset by our change in accounting method of calculating unearned premiums.

Net claims incurred from our liability segment decreased 127.4% to HK$45 million in net claims recovered in 2005 from HK$164 million in net claims incurred in 2004 primarily due to an increase in outstanding employees' compensation claims reserves following the termination of a reinsurance treaty with China Re in 2004. Net claims incurred is inversely related to reinsurance recoverable. The termination of the treaty contributed to a decrease in reinsurance recoverable in respect of our employees' compensation claims and as a result the net claims incurred in 2004 was higher than in 2005. In addition, the ultimate loss of polices issued by our predecessor companies prior to the 2000 Integration became clearer and less claim reserves were required in 2005.

Net commission expenses from our liability segment increased 3.7% to HK$28 million in 2005 from HK$27 million in 2004 primarily due to a decrease in our outward reinsurance business and the corresponding decrease in commission income from reinsurers as a proportional reinsurance treaty was not renewed after the first quarter of 2004.

Change in net provision for unexpired risks changed to negative HK$12 million in 2005 from positive HK$15 million in 2004 due primarily to the fact that, as of 31 December 2005, we estimated that the ultimate losses associated with unearned premiums at the same date would exceed the provision for unexpired risks estimated as of 31 December 2004 for employees' compensation business.

As a result of the above factors, the segment result of our liability segment increased 296.7% to an underwriting profit of HK$120 million in 2005 from an underwriting loss of HK$61 million loss in 2004.

2004 Compared to 2003

Gross written premiums from our liability segment decreased 13.5% to HK$244 million in 2004 from HK$282 million in 2003 primarily due to the fact that we continued our practice of not underwriting certain higher risk employees' compensation insurance policies, such as for construction workers. In addition, we increased premiums for non-construction employees' compensation policies, which resulted in the departure of several large customers and a reduction in gross written premiums for such policies.

Net earned premiums from our liability segment decreased 30.2% to HK$150 million in 2004 from HK$215 million in 2003 primarily due to a decrease in gross written premiums as discussed above and a significant decrease in gross written premiums from 2002 to 2003, as we stopped writing certain policies written by our predecessor companies, which resulted in a large amount of unearned premiums carried forward to 2003 that in turn increased earned premiums in 2003.

Net claims incurred from our liability segment decreased 47.1% to HK$164 million in 2004 from HK$310 million in 2003 primarily due to releases of excess reserves for outstanding claims. In addition, the number of new claims of employees' compensation insurance decreased in 2004 as compared to 2003, as a result of our continued refinement of our risk selection process, which also led to the decreased gross written premiums of our liability segment in 2004.

Net commission expenses from our liability segment decreased 18.2% to HK$27 million in 2004 from HK$33 million in 2003. This decrease resulted primarily from a decrease in gross written premiums and the corresponding decrease in gross commission expenses.

Change in net provision for unexpired risks increased to positive HK$15 million in 2004 from nil in 2003 primarily due to the fact that as of 31 December 2004, we estimated that the ultimate losses associated with unearned premiums at the same date would be less than the provision for unexpired risks estimated as of 31 December 2003 for employees' compensation business.

As a result of the above factors, the segment result of our liability segment improved 62.3% to an underwriting loss of HK$61 million in 2004 from an underwriting loss of HK$162 million in 2003.

Marine

The following table sets forth selected financial information for our marine segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
	(HK$ in millions, except percentages)				
Gross written premiums	189	194	195	113	119
Net earned premiums[1]	93	106	130	78	48
Net claims incurred	(39)	(41)	(31)	(15)	(11)
Net commission expenses	(20)	(17)	(18)	(9)	(5)
Business operating expenses	(20)	(22)	(25)	(14)	(21)
Segment results	14	26	56	40	11
Growth rate of gross written premiums	—	2.6%	0.5%	—	5.3%
Loss ratio	41.9%	38.7%	23.8%	19.2%	22.9%
Combined ratio	84.9%	75.5%	56.9%	48.7%	77.1%

(1) In the beginning of 2005, we changed our method of calculating unearned premiums, from the 1/24th method to the 1/365th method. As a result, we applied different methods of calculation for 2003 and 2004 than the methods applied for 2005 and the six months ended 30 June 2005 and 2006.

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Gross written premiums from our marine segment increased 5.3% to HK$119 million for the six months ended 30 June 2006 from HK$113 million for the six months ended 30 June 2005 primarily due to an increase in gross written premiums from our hull insurance business resulting from new insurance policies written for PRC shipping companies.

Net earned premiums from our marine segment decreased 38.5% to HK$48 million for the six months ended 30 June 2006 from HK$78 million for the six months ended 30 June 2005 primarily because we changed our method of calculating unearned premiums from the 1/24th method to the 1/365th method. As a result, cargo insurance earned greater premiums in 2005 when the change in calculation method occurred. In addition, premiums ceded to reinsurers increased as a new quota share reinsurance treaty with increased reinsurance premiums was introduced in 2006. The decrease was partially offset by an increase in gross written premiums.

Net claims incurred from our marine segment decreased 26.7% to HK$11 million for the six months ended 30 June 2006 from HK$15 million for the six months ended 30 June 2005 primarily as a result of three significant claims arising in connection with our hull insurance business in 2005.

Net commission expenses from our marine segment decreased 44.4% to HK$5 million for the six months ended 30 June 2006 from HK$9 million for the six months ended 30 June 2005 primarily due to an increase in commission income received from a new proportional reinsurance treaty arranged in 2006.

As a result of the above factors, the segment result of our marine segment decreased 72.5% to an underwriting profit of HK$11 million for the six months ended 30 June 2006 from an underwriting profit of HK$40 million for the six months ended 30 June 2005.

2005 Compared to 2004

Gross written premiums from our marine segment increased 0.5% to HK$195 million in 2005 from HK$194 million in 2004 primarily due to an increase in gross written premiums from our hull business arising from relatively stable market conditions and a higher policy renewal rate in 2005. This increase was partially offset by a decrease in gross written premiums from our logistics insurance business due to a decrease in average premium rates.

Net earned premiums from our marine segment increased 22.6% to HK$130 million in 2005 from HK$106 million in 2004 primarily due to a HK$26 million increase in change in net provision for unearned premiums resulting from our change in method of calculating unearned premiums, from the 1/24th method to the 1/365th method.

Net claims incurred from our marine segment decreased 24.4% to HK$31 million in 2005 from HK$41 million in 2004. This decrease was primarily due to a release of excess reserves for IBNR claims for the segment in 2005 due to a change in calculation method used in 2004, resulting in an over-estimation of outstanding claims. This increase was partially offset by an increase in net claims paid in relation to our hull insurance business.

Net commission expenses from our marine segment increased 5.9% to HK$18 million in 2005 from HK$17 million in 2004 primarily due to a decrease in hull commission income from reinsurers after the cessation of two reinsurance treaties in April 2004 and an increase in commission rates paid by us.

As a result of the factors above, the segment result of our marine segment increased 115.4% to an underwriting profit of HK$56 million in 2005 from an underwriting profit of HK$26 million in 2004.

2004 Compared to 2003

Gross written premiums from our marine segment increased 2.6% to HK$194 million in 2004 from HK$189 million in 2003 primarily due to an increase in gross written premiums from our hull insurance business due to the extension of insurance policies by two fleets, which was partially offset by a small decrease in both gross written premiums from our logistics business insurance and gross written premiums from our cargo insurance business.

Net earned premiums from our marine segment increased 14.0% to HK$106 million in 2004 from HK$93 million in 2003 primarily due to a HK$20 million increase in change in net provision for unearned premiums caused by an increase in gross written premiums from 2002 to 2003 which resulted in a larger amount of premiums being carried forward from 2003 to 2004 which in turn increased earned premiums in 2004. These increases were partially offset by a HK$13 million increase in premiums ceded to reinsurers.

Net claims incurred from our marine segment increased 5.1% to HK$41 million in 2004 from HK$39 million in 2003 primarily due to an increase in net claims paid for marine insurance. The increase in net claims paid was partially offset by a HK$1 million increase in the change in net provision for outstanding claims for marine insurance.

Net commission expenses from our marine segment decreased 15.0% to HK$17 million in 2004 from HK$20 million in 2003 primarily due to a decrease in gross commission expenses for cargo insurance and an increase in commission income in relation to outward reinsurance of certain hull policies. In addition, the average commission rate paid to intermediaries for cargo business dropped by 2% from 2003 to 2004.

As a result of the above factors, the segment result of our marine segment increased 85.7% to an underwriting profit HK$26 million in 2004 from an underwriting profit HK$14 million in 2003.

Accident and Health

The following table sets forth selected financial information for our accident and health segment for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
	(HK$ in millions, except percentages)				
Gross written premiums	58	58	56	31	38
Net earned premiums[(1)]	55	49	53	29	27
Net claims incurred	(24)	(17)	(15)	(12)	(8)
Net commission expenses	(12)	(16)	(13)	(7)	(8)
Business operating expenses	(14)	(15)	(14)	(9)	(12)
Segment results	5	1	11	1	(1)
Growth rate of gross written premiums	—	—	(3.4)%	—	22.6%
Loss ratio	43.6%	34.7%	28.3%	41.4%	29.6%
Combined ratio	90.9%	98.0%	79.2%	96.6%	103.7%

(1) In the beginning of 2005, we changed our method of calculating unearned premiums, from the 1/24th method to the 1/365th method. As a result, we applied different methods of calculation for 2003 and 2004 than the methods applied for 2005 and the six months ended 30 June 2005 and 2006.

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Gross written premiums from our accident and health segment increased 22.6% to HK$38 million for the six months ended 30 June 2006 from HK$31 million for the six months ended 30 June 2005 primarily due to an increase in our travel accident business in 2006 resulting from closer cooperation with a large Hong Kong travel agency.

Net earned premiums from our accident and health segment decreased 6.9% to HK$27 million for the six months ended 30 June 2006 from HK$29 million for the six months ended 30 June 2005 primarily due to our adoption of a new accounting method to calculate provisions for unearned premiums, which resulted in an increase in net earned premiums in 2005.

Net claims incurred from our accident and health segment decreased 33.3% to HK$8 million for the six months ended 30 June 2006 from HK$12 million for the six months ended 30 June 2005 primarily due to our release of HK$6 million in excess reserves for IBNR claims in relation to medical insurance.

Net commission expenses from our accident and health segment increased 14.3% to HK$8 million for the six months ended 30 June 2006 from HK$7 million for the six months ended 30 June 2005 primarily due to an increase in gross written premiums and an increase in our commission rate.

As a result of the above factors, the segment result of our accident and health segment decreased to an underwriting loss of HK$1 million for the six months ended 30 June 2006 from an underwriting profit of HK$1 million for the six months ended 30 June 2005.

2005 Compared to 2004

Gross written premiums from our accident and health segment decreased 3.4% to HK$56 million in 2005 from HK$58 million in 2004 primarily due to a decrease in our medical insurance business as we refined our underwriting policies to limit the number of group medical policies written to companies with unprofitable claims histories.

Net earned premiums from our accident and health segment increased 8.2% to HK$53 million in 2005 from HK$49 million in 2004 primarily due to our adoption of a new accounting method to calculate provisions for unearned premiums, which resulted in an increase in net earned premiums in 2005.

Net claims incurred from our accident and health segment decreased 11.8% to HK$15 million in 2005 from HK$17 million in 2004 primarily due to the release of excess reserves for reported but unsettled claims which had been outstanding for a long period of time.

Net commission expenses from our accident and health segment decreased 18.8% to HK$13 million in 2005 from HK$16 million in 2004 primarily due to the lower gross commission rates associated with the 3.4% decrease in gross written premiums from 2004 to 2005.

As a result of the above factors, the segment result of our accident and health segment increased to an underwriting profit of HK$11 million in 2005 from an underwriting profit of HK$1 million in 2004.

2004 Compared to 2003

Gross written premiums from our accident and health segment remained stable at HK$58 million in 2004 and 2003.

Net earned premiums from our accident and health segment decreased 10.9% to HK$49 million in 2004 from HK$55 million in 2003 primarily due to a HK$5 million decrease in the change in net provision for unearned premiums from 2003 to 2004 as premiums ceded to reinsurers and gross written premiums decreased in 2003. As a result, a large amount of unearned premiums was carried forward to 2003, thus increasing earned premiums in 2003.

Net claims incurred from our accident and health segment decreased 29.2% to HK$17 million in 2004 from HK$24 million in 2003 primarily due to a decrease in unprofitable group medical claims.

Net commission expenses from our accident and health segment increased 33.3% to HK$16 million in 2004 from HK$12 million in 2003 primarily due to an increase in our commission rates for this segment in 2004.

As a result of the above factors, the segment result of our accident and health segment decreased 80.0% to an underwriting profit of HK$1 million in 2004 from HK$5 million in 2003.

LIQUIDITY AND CAPITAL RESOURCES

Our major source of funds generated from our insurance business is insurance premiums received and claims recoveries. Other fund sources include rental, interest and dividend income from investment activities as well as proceeds from disposals of investments. We aim to maintain adequate cash to meet claims payments and other obligations in relation to our insurance business, capital expenditures, operating expenses and tax payments. The timing, frequency and severity of losses under our outstanding policies will affect our liquidity needs. We closely monitor and maintain a minimum cash level, taking into account the possibility of infrequent large claims arising from catastrophic events that could affect our general insurance business.

Cash Flows

The following table sets forth certain information regarding our consolidated cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
			(HK$ in millions)		
Operating profit before changes in working capital	60	76	271	85	113
(Decrease)/increase in working capital	(232)	(243)	(183)	(86)	740
Net cash (used in)/ from operating activities	(176)	(172)	81	(7)	846
Net cash (used in)/ from investing activities	278	8	104	(85)	83
Net cash (used in)/ from financing activities	—	—	—	—	—
Net increase/(decrease) in cash and cash equivalents	102	(164)	185	(92)	929
Cash balance at end of year/period	789	625	815	533	1,744

Cash flows from operating and investing activities constitute our principal source of liquidity. Net cash generated from operating activities increased from a net outflow of HK$7 million for the six months ended 30 June 2005 to a net inflow of HK$846 million for the six months ended 30 June 2006, due primarily to the receipt of a single large reinsurance receivable from China Re in the amount of HK$886 million. Until 1999, Ming An Hong Kong and the Hong Kong branches of Tai Ping Insurance and China Insurance Holdings (all of which were subsidiaries of PICC at that time) ceded their employees' compensation insurance to PICC. The restructuring of PICC in 1999 resulted in China Re assuming all the reinsurance business of PICC, including the reinsurance recoverable due to Ming An Hong Kong (comprising the Hong Kong branches of China Insurance Holdings and Tai Ping Insurance in 2000 as a result of the 2000 Integration). Subsequently, after negotiation, both parties agreed to a full and final settlement by way of commutation on 26 May 2004. According to the agreement, China Re was required to pay Ming An Hong Kong a sum of approximately HK$1,017 million (after netting off a HK$4 million account payable) within 5 years from the date of the agreement. During 2004 and 2005, China Re repaid an aggregate of approximately HK$131 million to Ming An Hong Kong and left a balance of approximately HK$886 million. Such receivable was acquired by China

Insurance Holdings from Ming An Hong Kong on 30 June 2006 when China Insurance Holdings paid the full amount in cash on a fully non-recourse basis. Net cash generated from operating activities was HK$81 million in 2005, representing an increase of 147.1% from a net outflow of HK$172 million in 2004, primarily due to the fact that we successfully recovered outstanding reinsurance receivables and amounts due from other members of the China Insurance Group. We experienced net cash outflows in respect of operating activities for 2003 and 2004 because the sum of direct claims payments relating to policies issued prior to 2003 and operating expenses exceeded the direct premium income we received in those years. However, claims payments relating to such policies decreased throughout the period from 2003 to 30 June 2006.

Net cash generated from investing activities was HK$278 million, HK$8 million, HK$104 million and HK$83 million in the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, respectively. Net cash used in investing activities was HK$85 million for the six months ended 30 June 2005. Net cash generated from investing activities increased 197.6% from negative HK$85 million for the six months ended 30 June 2005 to HK$83 million for the six months ended 30 June 2006 due to a substantial increase in bank deposits after our disposal of the remainder of our non-insurance investment projects in the first six months of 2006, pursuant to our 2000 policy change to only hold financial and insurance-related investments, as well as to a HK$38 million gain on a one-time disposal of shares of Resources Shajiao C Investments Limited to China Resources Power Performance Limited during the six months ended 2006, an increase in interest income of HK$11 million due to an increase in interest rates and an increase in proceeds from the disposal of bonds listed overseas. Net cash generated from investing activities increased 1,200.0% from HK$8 million for 2004 to HK$104 million for 2005 due primarily to a HK$84 million decrease in purchases of bonds listed overseas, as well as a HK$44 million increase in interest income and dividend income, which was partially offset by a HK$54 million decrease in deposits with banks with an original maturity of more than three months. Net cash generated from investing activities decreased 97.1% from HK$278 million for 2003 to HK$8 million for 2004 mainly due to the disposal of several non-core investment properties and securities held for trading in 2003.

We did not engage in any financing activities from 2003 to 2006.

We are subject to amounts receivable from and payable to other members of the China Insurance Group arising from normal trading balances in relation to our reinsurance business. Such balances are not expected to be fully settled before the Listing. See “Relationship with China Insurance Group and Connected Transactions”.

Working Capital

We typically generate substantial positive cash flow from operating activities because we generally receive insurance premiums on policies we underwrite before we make loss payments on claims made under such policies. Such cash flows from operating activities have met our working capital requirements in the past.

We believe that, after taking into account the estimated net proceeds of the Global Offering (see the section headed “Future Plans and Use of Proceeds — Use of Proceeds”) and cash generated from operating activities, we have sufficient working capital for our present requirements.

Capital Expenditures

Our capital expenditures have primarily been for the acquisition of motor vehicles, renovation expenditures, furniture and fittings, equipment and computers and the development of our information systems.

The following table sets forth our expected capital expenditures for each of the years ending 31 December 2006, 2007 and 2008:

	Year ending 31 December		
	2006	2007	2008
	(HK$ in millions)		
Capital expenditures	6	114	51

We may increase or decrease the amount of our planned capital expenditures, decide to incur other capital expenditures or cancel currently planned capital expenditures depending on, among other factors, market conditions, our financial results and other future developments.

Indebtedness

Borrowings

We did not have any outstanding borrowings at the close of business on 31 October 2006.

Contingent Liabilities

In the normal course of business, we provide guarantees to insured parties and banks as part of our claims and underwriting processes. As of 31 October 2006, we had a contingent liability of HK$30 million in respect of potential Hong Kong tax exposure relating to certain realised and unrealised gains on the disposal of listed investments for the 2001, 2002 and 2003 tax years.

Disclaimer

Except as disclosed above, we did not have, at the close of business on 31 October 2006, any material credit facilities or any mortgages, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

No Material Changes

Our directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2006.

Operating Lease Commitments

Lease payment obligations will affect our liquidity in the future. We lease a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of our leases include contingent rentals. As of 30 June 2006, we had HK$3 million in operating lease commitments, with HK$1.2 million due within one year, HK$1.4 million due after one year but within three years, and HK$0.4 million due after three years but within five years.

Legal Contingencies

Owing to the nature of the insurance business, we are involved in legal proceedings in our ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on our insurance policies.

Solvency Margin Requirement

Due to our unique 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.

Pursuant to section 42 of the ICO, an insurer is required to maintain at any time an excess of assets over liabilities of not less than a specified amount. For a company carrying on general insurance business only, the specified amount applicable to the company is determined as follows:

- where the premium income net of reinsurance (“the said income”) of the company in its last preceding financial year, or the relevant outstanding claims net of reinsurance (“the said outstanding claims”) of the company as at the end of its last preceding financial year, whichever is greater, did not exceed HK$50 million, the specified amount is HK$10 million;

- where the said income in that year, or the said outstanding claims as at the end of that year, whichever is greater, exceeded HK$50 million but did not exceed HK$200 million, the specified amount is one-fifth of the said income in that year or one-fifth of the said claims outstanding as at the end of that year; and
- where the said income in that year, or the said outstanding claims as at the end of that year, whichever is greater, exceeded HK$200 million, the specified amount is the aggregate of HK$40 million and one-tenth of the said income in that year exceeding HK$200 million, or one-tenth of the said outstanding claims as at the end of that year exceeding HK$200 million.

To determine a general business insurer's solvency margin, assets are valued in accordance with the Valuation Regulation. We have met our minimum solvency requirements in Hong Kong throughout the Track Record Period. We review our solvency margin regularly and report the status of our solvency margin to the Office of the Commissioner of Insurance of Hong Kong on an annual basis.

The PRC Insurance Law requires an insurance company to maintain a minimum solvency margin commensurate with the scale of its business operations. For companies engaging in general insurance, the minimum solvency margin is the greater of:

- 18% of the portion of the net written premiums in the current fiscal year net of business tax and other surcharges not in excess of RMB100 million, plus 16% of the portion in excess of RMB100 million; or
- 26% of the portion of the average annual net claims incurred for the last three years that is less than RMB70 million, plus 23% of the portion in excess of RMB70 million.

As of 31 December 2005, in accordance with the authorisation requirements mentioned above, we were required to maintain a solvency margin of at least HK$176 million. We have met our minimum solvency requirements in the PRC throughout the Track Record Period. If the actual solvency margin of an insurance company in the PRC falls below the prescribed minimum solvency margin, the legal representative, actuarial officer, financial officer and other officers of the company are required to promptly report such finding to the CIRC. The CIRC may put the company under special supervision or take additional action.

Premium to Capital Ratio

The premium to capital ratio is the ratio of net written premiums of a general insurance company in any financial year to the sum of its paid-in capital, capital reserves, surplus reserves and public welfare funds. In Hong Kong, there are no regulations stipulating a maximum premium to capital ratio. According to paragraph 99 of the PRC Insurance Law, the maximum premium to capital ratio of a general insurance company is 4:1 in any financial year. Ming An China's premium to capital ratio for 2005 was 0.49:1.

The following table sets forth our premium to capital ratio for the periods indicated:

	Year ended 31 December		
	2003	**2004**	**2005**
Premium to capital ratio — Ming An Hong Kong	0.82:1	0.64:1	0.41:1
Premium to capital ratio — Ming An China	0.36:1	0.46:1	0.49:1
Premium to capital ratio (consolidated)	0.71:1	0.60:1	0.43:1

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISK

We have exposure to market risk through our operating and investment activities. Market risk is the risk that we will incur losses due to adverse changes in market rates and prices. The primary market risk exposures that we face are changes in interest rates, equity prices and property prices. We are also exposed to credit risks through our reinsurance activities and our investments, and exchange rate risk with regard to premiums received, and liabilities incurred, in foreign currencies. We have not entered into any derivative financial instruments for trading or any other purposes.

Interest Rate Risk

Interest rate risk is the risk to the earnings or market value of our investment portfolio due to uncertainty in future interest rates. Our exposure to interest rate changes primarily results from our holdings of debt securities. As of 30 June 2006, we held approximately HK$120 million in debt securities. The market price of our debt securities fluctuates with changes in interest rates. When interest rates rise, the market value of these debt securities falls. When interest rates fall, the market value of these securities rises. Our debt securities include government bonds, bonds issued by financial institutions and corporate bonds with a rating at or greater than "BBB", most of which are exposed to interest rate risk. Interest rate risks may also affect our future investments.

We believe that our exposure to interest rate risk is limited as we do not discount provisions for outstanding claims and given the small proportion of our investment portfolio held as debt. While a greater proportion of our investment is held as bank deposits, our bank deposits are primarily held in only three currencies and consequently deposit interest rate risk is also limited with respect to those funds. In addition, although investments in debt securities are classified as securities held for trading, we do not generally dispose of them if we consider their market prices to be unattractive, in which case they are held to maturity to redeem at par.

Our debt securities portfolio is managed by CIGAML under the direction of our Investment Committee. We manage our exposure to risks associated with interest rate fluctuations through quarterly review of our investment portfolio by our Investment Committee, annual in-depth review of our investment policy in conjunction with CIGAML and consultation with external financial investment experts. CIGAML provides us with a weekly report on our investment portfolio, and we monitor trends to refine our investment policy accordingly. Our goal is to maintain liquidity, to preserve capital, to generate stable returns and to achieve better asset to liability matching. In the future, we expect to increase the proportion of debt securities in our investment portfolio.

Credit Risk

Credit risk is risk due to uncertainty in a counterparty's ability to meet its obligations. We have exposure to credit risk in both insurance and investment operations.

We are subject to the credit risk of our reinsurers in the event of insolvency or the reinsurer's failure to honour its payment commitment. To reduce such risks, a list of approved reinsurers is maintained and reviewed regularly and we disperse our reinsurance business across various reinsurers. Business may only be ceded to companies appearing on the approved list. Reinsurers are ultimately selected on the basis of their financial condition, history of cooperation, quality of service and price of their reinsurance products. In addition, we establish and follow strict debt collection procedures. In June 2006, we sold HK$886 million in receivables due from China Re to China Insurance Group at par.

We are also subject to the credit risk of our intermediaries. As a result, we follow strict internal policies to closely monitor and assess the financial strength of each intermediary. Based on such assessment, we extend credit periods up to a maximum of four months to our largest and most reputable intermediaries.

Our investments in debt securities are also subject to credit risk. Deterioration of the financial condition or results of operations of the issuers of these instruments may cause a delay in payments of principal or interest when due, and may also result in potential loss in the market value of the securities. It is our policy to invest in bonds with ratings of "BBB-" or above to limit exposure to credit risk.

Equity Price Risk

We have a substantial investment in the listed shares of PCIH. As we intend to hold this investment for strategic purposes, it is grouped under available-for-sale securities with any change in fair value included in our equity and so our operating results will not be affected by the fair value movement of the securities. As of each of 31 December 2003, 2004 and 2005 and 30 June 2006, we held 96 million (2003) and 91 million (2004, 2005 and 2006) shares in PCIH, respectively, with a total market value of HK$298 million, HK$282 million, HK$253 million and HK$373 million, which represented 74.1%, 74.0%, 80.8% and 90.5% of our total investment in equity securities during those periods.

Except for our equity share in PCIH, substantially all of our equity portfolio is managed by CIGAML under the direction of our Investment Committee. Pursuant to our investment guidelines, CIGAML may not invest more than 30% of the funds under its management in equity securities. We manage our exposure to equity price risks through quarterly review of our investment portfolio by our Investment Committee, annual in-depth review of our investment policy in conjunction with CIGAML and consultation with external financial investment experts. Our equity securities, with the exception of our equity holdings in affiliate companies, must all be listed on the main board of the HKSE.

Foreign Currency Risk

Our reporting currency is Hong Kong dollars. We have exposure to foreign currency risk as we have underwritten insurance policies and collected premiums in currencies other than Hong Kong dollars and hold certain assets and liabilities in such currencies. Other than Hong Kong dollars, we transact business mainly in U.S. dollars and Renminbi. U.S. dollar and RMB assets mainly comprise cash and cash equivalents whereas U.S. dollar and RMB liabilities mainly comprise provision for claims liabilities and insurance payables. At present, the market exchange rate of the Hong Kong dollar against the U.S. dollar is set within a fixed trading range from HK$7.75 to HK$7.85 against US$1.00 and we believe that the range of the fluctuation of the exchanges rate between Hong Kong dollars and RMB is narrow. Accordingly, we believe the impact of foreign currency risk to us is minimal.

Effects of Inflation

According to the Census and Statistics Department of the Government of Hong Kong, Hong Kong experienced inflation of 1% in 2005 and experienced deflation of 0.4% and 2.6% in 2004 and 2003, respectively. According to the National Bureau of Statistics of China, China experienced inflation of 1.8%, 3.9% and 1% in 2005, 2004 and 2003, respectively. While inflation has not had a significant impact on our results of operations in recent years, it is taken into account in respect of our settlement of claims and excess of loss reinsurance recovery.

Property and Land Price Fluctuation Risk

As of 30 June 2006, we held HK$1,277 million in property and land, or 23.5% of our total assets. Changes in property and land prices in the market could significantly impact the value of our assets as we account for our fixed assets on a periodic fair value adjustment basis.

Risk Exposure Estimates

We conduct sensitivity analysis to analyse the implications of changes in market conditions on our investment assets. The sensitivity analysis measures the potential loss in the fair values of market sensitive investment assets resulting from selected hypothetical changes in equity prices, interest rates and foreign exchange rates at a selected time.

Interest rate risk sensitivity is estimated under the assumption of a 1% increase in interest rates. If interest rates increase, the fair values of interest rate-sensitive instruments such as bonds may decrease. Furthermore, the magnitude of the decrease may be different depending on the maturity, coupon or other characteristics of a particular instrument.

The following table sets forth the aggregate fair value sensitivity of our interest rate-sensitive bond instruments assuming a simultaneous and instantaneous 1% increase in interest rates across all relevant interest rate-sensitive bond instruments as of the dates indicated:

	As of 31 December		
	2003	2004	2005
	(HK$ in millions)		
Interest rate risk	(0.5)	(3)	(4)

Equity risk sensitivity is estimated by assuming a 1% decline in stock prices. If stock prices decrease, the fair value of our listed equity and listed equity investment funds will decrease. As the majority of our total investment in equities for the years ended 31 December 2003, 2004 and 2005 was comprised of our holding of PCIH, our equity risk sensitivity primarily reflects the effect of a change in the price of PCIH shares.

The following table sets forth the aggregate fair value sensitivity of our listed equity and listed equity investment funds assuming a simultaneously 1% decline in the price of all of our equity holdings as of the dates indicated:

	As of 31 December		
	2003	2004	2005
	(HK$ in millions)		
Equity price risk	(3)	(3)	(3)

Foreign exchange rate risk sensitivity is estimated by assuming a 1% depreciation in all non-Hong Kong dollar currency exchange rates against the Hong Kong dollar. If non-Hong Kong dollar currencies depreciate against the Hong Kong dollar, the carrying value of our non-Hong Kong dollar denominated fixed deposits and cash and cash equivalents will decrease.

The following table sets forth the aggregate carrying value sensitivity of our non-Hong Kong dollar denominated fixed deposits and cash and cash equivalents assuming a simultaneously and uniform 1% depreciation of the value of all non-Hong Kong dollar currencies against the Hong Kong dollar as of the dates indicated:

	As of 31 December		
	2003	2004	2005
	(HK$ in millions)		
Foreign exchange risk	(6)	(5)	(5)

We hold properties for our own use and for lease. As of 31 December 2005 and 30 June 2006, we held property and land valued at HK$1,262 million and HK$1,277 million respectively, accounting for 23.9% and 23.5%, respectively, of our total assets. Changes in property and land prices in the market could significantly impact the value of our assets as we account for our fixed assets on a periodic fair value and adjustment basis.

Property and land price sensitivity is estimated by assuming a 1% decline in property and land prices. If property and land price decrease, the fair value of our property and land will decrease. The following table sets forth the aggregate fair value sensitivity of our property and land assuming a simultaneously 1% decline in all of our property and land holdings as of the dates indicated:

	As of 31 December		
	2003	2004	2005
	(HK$ in millions)		
Property and land price fluctuation risk	(10)	(11)	(13)

We believe that the scenarios chosen make reasonable assumptions based on past observations about market conditions. While market changes exceeding 1% are possible, we believe our sensitivity analysis is a fair estimate on the risk inherent in our investment assets. While we have intentionally simplified these assumptions, we believe they provide a useful framework for our risk management analysis and strategies.

Some of our investment assets involve more than one market risk category. Our sensitivity analysis does not take into account the impact of market risk in our insurance liabilities. We believe that the structure of our insurance liabilities would generally operate to mitigate our exposure to market risk.

Limitations of Sensitivity Analysis

While we consider sensitivity analysis to provide us with a valid estimation of market risk exposures, we recognise that there are certain limitations in its use.

Changes of prices in a diversified portfolio have offsetting effects, known as the "diversification effect" of holding a portfolio consisting of different assets, since different assets revalue in different directions or in different magnitudes to marketplace changes. Diversification is not taken into account in our risk estimates due to the generalised assumptions of a sensitivity analysis. The actual changes in the fair value of our investment assets may be different than those shown here.

Furthermore, routine daily business activity entails a certain amount of change in a portfolio's composition as bonds mature or as we buy or sell investment assets. As a result, the actual sensitivity of our portfolio will vary at any particular moment in time, and the risk of loss from equity price, interest rate, foreign exchange rate or other risks cannot be eliminated.

In addition, our sensitivity analysis is an estimate based on a fixed point in the past. Nearly all of our assets and liabilities are subject to market risk from fluctuating equity prices, interest rates and foreign exchange rates. These fluctuations cannot be foreseen and could occur very suddenly. The quantitative risk measures provided by the sensitivity analysis are a snapshot, describing the potential losses to investments under a particular set of assumptions and parameters, which, though reasonably possible, may differ considerably from actual losses experienced in the future.

Property Interests and Valuation of Properties

For the purpose of the listing of our shares on the Stock Exchange of Hong Kong Limited, our properties were revalued at HK$1,318,750,000 as at 30 September 2006 by Savills Valuation and Professional Services Limited. Details of the valuation are summarised in Appendix V to this prospectus.

Disclosure of the reconciliation of the property interests of our Group from audited combined financial information as at 30 June 2006 to the valuation of such property interests as at 30 September 2006, as required under Rule 5.07 of Listing Rules is set out below.

	HK$	*HK$*
Valuation of properties as at 30 September 2006 as set out in the Valuation Report included in Appendix V		1,318,750,000
Net book value of the following properties as at 30 June 2006 as set out in the Accountant's Report included in Appendix I		
– Land and buildings	28,660,437	
– Buildings	72,076,823	
– Investment properties	948,690,000	
– Interests in leasehold land held for own use under operating leases	227,339,746	
	1,276,767,006	
Less:		
Depreciation of land and buildings for the 3 months ended 30 September 2006	353,673	
Depreciation of buildings for the 3 months ended 30 September 2006	414,235	
Amortisation of leasehold land held for own use for the 3 months ended 30 September 2006	69,438	
	837,346	
Net book value of properties as at 30 September 2006 subject to valuation as set out in the Valuation Report included in Appendix V		1,275,929,660
Net revaluation surplus[1]		42,820,340

(1) The net revaluation surplus related to the revaluation surplus of land and buildings, buildings and interests in leasehold land held for own use under operating leases which are not reflected in the financial statements, as they are stated at cost less accumulated depreciation and impairment losses in accordance with the Group's accounting policies. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets statement under the Appendix II of the Prospectus. Had the properties been stated at such valuation, an additional depreciation of approximately HK$797,947 per annum would have been incurred.

ADJUSTED NET TANGIBLE ASSETS

For illustrative purposes only, the following table presents our pro forma financial condition assuming the completion of the Global Offering. The following statement of adjusted net tangible assets is based on our net tangible value as of 30 June 2006 as set out in "Appendix I — Accountants' Report":

	Adjusted net tangible assets as at 30 June 2006 [(1)]	Estimated net proceeds from the Global Offering (Assuming that the Over-allotment Option is not exercised) [(2)]	Unaudited pro forma adjusted net tangible assets of the Group	Unaudited pro forma adjusted net tangible assets value per Shares [(3)]
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on Offer Price of HK$1.28 per Share	1,822,150	725,590	2,547,740	0.91
Based on Offer Price of HK$1.88 per Share	1,822,150	1,075,561	2,897,711	1.03

(1) The adjusted net tangible assets of the Group as at 30 June 2006 is based on the audited combined net assets of the Group attributable to the equity holders of the Company of HK$1,891,546,188 as at 30 June 2006 extracted from the Accountants' Report set out in Appendix I to the Prospectus with an adjustment for the deferred tax assets of HK$69,396,103 as of 30 June 2006.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.28 and HK$1.88 per Share, after deduction of the underwriting fees and other related expenses payable by the Group. No account has been taken of the Shares which may be allotted and issued upon exercise of the Over-Allotment Option.

(3) The unaudited pro forma adjusted net tangible asset value per Share is determined after the adjustments as described in note 2 above and on the assumption that 2,801,334,000 shares are issued and outstanding, and that the Over-Allotment option has not been exercised. If the Over-Allotment Option is exercised, the unaudited pro forma adjusted net tangible asset value per share will increase.

(4) As of 30 September 2006, the Group's properties interests were revalued by Savills Valuation and Professional Services Limited, an independent property valuer, and the relevant property valuation report as at 30 September 2006 is set out in Appendix V - Property Valuation to this prospectus. The values of revalued investment properties, land and buildings, buildings and interests in leasehold land held for own use under operating leases are approximately HK$948,690,000, HK$50,430,000, HK$73,474,000 and HK$246,156,000, respectively. By comparing the valuation of the Group's property interests as set out in Appendix V and the unaudited net book value of these properties as at 30 September 2006, net revaluation surplus on investment properties is nil and the net revaluation surplus on land and buildings, buildings and interests in leasehold land held for own use under operating leases are approximately HK$21,769,563, HK$1,397,177 and HK$18,816,254 respectively, which have not been included in the above adjusted net tangible assets of the Group. Revaluation surplus on land and buildings, buildings and interests in leasehold land held for own use under operating leases will not be recorded in the Group's financial statements for the year ending 31 December 2006 as these items are carried at cost less accumulated depreciation and any recognised impairment loss. If such revaluation surplus was incorporated in the Group's financial statements, an additional depreciation and amortisation charges of approximately HK$797,947 would be incurred for the year ending 31 December 2006.

PROFIT FORECAST AND DIVIDEND POLICY

Profit Forecast

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in "Appendix IV — Profit Forecast", our profit after taxation for 2006 is unlikely to be less than HK$254 million under Hong Kong GAAP, representing a 55.4% decrease from our profit after taxation in 2005. The significant expected decrease can be attributed to an anticipated decline in underwriting profits by HK$146 million, or 58.6%, when compared with 2005, together an anticipated decline in revaluation surplus of investment properties by HK$163 million, or 89.6%, when compared with 2005. Underwriting profits are expected to decrease due to an anticipated drop in net earned premiums of HK$66 million due to the change in the method of calculating unearned premiums from the 1/24th method to the 1/365th method since 2005, together with an anticipated increase in net claims incurred due primarily to the fact that the amount of outstanding claims reserves for employees' compensation insurance policies we expect to release for 2006 will be significantly less than the amount released in 2005. The anticipated decline in underwriting profits will also be influenced by increased management expenses of HK$47 million, or 30.1%, when compared with 2005 due primarily to costs associated with the opening of new branches of Ming An China in the PRC in 2006. The revaluation surplus of investment properties is expected to decrease as a result of slower growth in the market prices for Hong Kong real estate in 2006 as compared with 2005.

Forecast profit attributable to our shareholders not less than[2]	HK$254 million
Forecast earnings per Share	
(a) Pro forma fully diluted[3]	HK$0.09
(b) Weighted average[4]	HK$0.11

(1) All statistics in this table are based on the assumption that the Over-Allotment Option is not exercised.

(2) The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix IV.

(3) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit attributable to our equity holders for the year ending 31 December 2006, assuming that we had been listed since 1 January 2006 and a total of 2,801,334,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-Allotment Option will not be exercised, and the Shares issued pursuant to the Global Offering were issued on 1 January 2006.

(4) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit attributable to our equity holders for the year ending 31 December 2006 and a weighted average number of 2,214,827,414 Shares issued and outstanding during the year. This calculation assumes that the Over-allotment Option will not be exercised and the Shares issued pursuant to the Global Offering will be issued on 22 December 2006.

The texts of letters from the reporting accountants, KPMG, and from Credit Suisse in respect of the profit forecast are set out in "Appendix IV — Profit Forecast".

Dividend Policy

Our Board of Directors will declare dividends, if any, on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a financial year will be subject to shareholders' approval. Under the Cayman Companies Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. Holders of the Shares will share proportionately on a per Share basis in all dividends and other distributions declared by our board of directors. Any final dividend for a financial year will be subject to our shareholders' approval.

In determining the level of dividend (if any) distributable to our shareholders for 2006 and thereafter, our board of directors intends to consider the factors enumerated below:

- our financial results;
- our shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders;
- our solvency margin position;
- possible effects on our creditworthiness; and
- other factors our board of directors may deem relevant.

RULES 13.13 TO 13.19 OF THE LISTING RULES

Our directors have confirmed that as at the Latest Practicable Date there were no circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGES

Our directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2006. Our directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since 30 June 2006 and there is no event since 30 June 2006 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.