

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in "Appendix VIII – Documents Delivered to the Registrar of Companies and Available for Inspection", a copy of the Accountants' Report is available for inspection.*



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The Directors  
The Ming An (Holdings) Company Limited  
Credit Suisse (Hong Kong) Limited

11 December 2006

Dear Sirs

## INTRODUCTION

We set out below our report on the Financial Information relating to The Ming An (Holdings) Company Limited (the "Company") and its subsidiaries (collectively the "Group"), in Sections I to VI, including the combined balance sheets as at 31 December 2003, 2004 and 2005 and 30 June 2006 and the related combined revenue accounts, combined income statements, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 (the "Relevant Periods"), and the notes thereto (collectively the "Financial Information"), together with the unaudited financial information of the Group including the combined revenue account, combined income statement, combined statement of changes in equity and combined statement of cash flows for the six months ended 30 June 2005 and the notes thereto (the "30 June 2005 Corresponding Information"), for inclusion in the prospectus of the Company dated 11 December 2006.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) on 5 September 2006. Pursuant to a group reorganisation completed on 29 November 2006 (the "Reorganisation"), details of which are set out in the section "Our Reorganisation" to the Prospectus, the Company became the holding company of the subsidiaries comprising the Group.

The Ming An Insurance Company (Hong Kong), Limited ("Ming An Hong Kong") and The Ming An Insurance Company (China), Limited ("Ming An China") are the principal subsidiaries of the Company during the Relevant Periods. The principal activities of Ming An Hong Kong and Ming An China are the underwriting of all classes of general insurance and reinsurance business. The principal activities and other particulars of other subsidiaries are set out in note 14 to the Financial Information.

We have been acting as auditors of the Company and Ming An China since their incorporation on 5 September 2006 and 10 January 2005 respectively. We have also been acting as auditors of Ming An Hong Kong and other subsidiaries of the Group since the year ended 31 December 2004. The financial statements of Ming An Hong Kong and other subsidiaries of the Group for the year ended 31 December 2003 were audited by Deloitte Touche Tohmatsu.

No audited financial statements of the Company have been prepared since the date of its incorporation on 5 September 2006 as it was newly incorporated and has not been involved in any business transactions other than the Reorganisation.

**BASIS OF PREPARATION**

The Financial Information, together with the 30 June 2005 Corresponding Information, has been prepared by the directors of the Company in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) based on the audited financial statements, or where appropriate, unaudited financial statements of the companies now comprising the Group on the basis set out in note 1. Adjustments have been made, for the purpose of this report, to restate the financial statements of the companies now comprising the Group in accordance with the basis set out in note 2 to conform with HKFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**RESPONSIBILITY**

The directors are responsible for preparing the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

**BASIS OF OPINION**

We have examined the audited financial statements of Ming An Hong Kong and its subsidiaries, and where appropriate, the unaudited financial statements of Ming An Hong Kong and its subsidiaries for the Relevant Periods in accordance with the Statements of Auditing Standards and Guidelines issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA. We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2006.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in the note 1 to the Financial Information, gives a true and fair view of the combined results and cash flows for the Relevant Periods, and of the state of affairs of the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006.

**REVIEW WORK PERFORMED**

For the purpose of this report, we have also reviewed the 30 June 2005 Corresponding Information, for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA.

A review consists principally of making enquiries of directors and management, and applying analytical procedures to the 30 June 2005 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the 30 June 2005 Corresponding Information.

**REVIEW CONCLUSION**

On the basis of our review of the 30 June 2005 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the six months ended 30 June 2005.

## I COMBINED REVENUE ACCOUNTS

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
		HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Gross written premiums	4	1,173,057,469	1,132,661,602	1,099,506,970	602,283,370	568,720,727
Premiums ceded to reinsurers		(519,634,566)	(475,307,444)	(412,340,069)	(222,701,896)	(237,359,476)
<b>Net written premiums</b>		<u>653,422,903</u>	<u>657,354,158</u>	<u>687,166,901</u>	<u>379,581,474</u>	<u>331,361,251</u>
Change in gross provision for unearned premiums		305,660,241	55,061,803	73,680,847	23,584,304	(48,022,754)
Change in reinsurers' share of provision for unearned premiums		(220,009,932)	(36,672,646)	(54,790,475)	(24,559,689)	34,247,666
Change in net provision for unearned premiums		<u>85,650,309</u>	<u>18,389,157</u>	<u>18,890,372</u>	<u>(975,385)</u>	<u>(13,775,088)</u>
<b>Net earned premiums</b>		<u>739,073,212</u>	<u>675,743,315</u>	<u>706,057,273</u>	<u>378,606,089</u>	<u>317,586,163</u>
<b>Commission income</b>		<u>113,865,551</u>	<u>115,498,850</u>	<u>99,351,355</u>	<u>59,903,286</u>	<u>58,338,531</u>
Gross claims paid		(1,197,259,666)	(938,502,893)	(806,161,769)	(396,244,523)	(390,298,650)
Change in gross provision for outstanding claims		431,682,620	594,429,919	406,032,510	68,049,991	171,386,467
Gross claims incurred		(765,577,046)	(344,072,974)	(400,129,259)	(328,194,532)	(218,912,183)
Reinsurers' share of claims paid		507,349,550	395,958,434	332,910,666	163,699,665	175,867,718
Reinsurers' share of change in provision for outstanding claims		(185,219,211)	(420,135,772)	(85,642,312)	11,367,813	(13,695,558)
<b>Net claims incurred</b>		<u>(443,446,707)</u>	<u>(368,250,312)</u>	<u>(152,860,905)</u>	<u>(153,127,054)</u>	<u>(56,740,023)</u>
Change in gross provision for unexpired risks		–	–	(7,648,800)	–	2,381,800
Change in reinsurers' share of provision for unexpired risks		–	15,000,000	(4,351,200)	–	7,125,200
<b>Change in net provision for unexpired risks</b>		<u>–</u>	<u>15,000,000</u>	<u>(12,000,000)</u>	<u>–</u>	<u>9,507,000</u>
<b>Gross commission expenses</b>		<u>(246,218,258)</u>	<u>(237,887,641)</u>	<u>(222,131,265)</u>	<u>(119,701,017)</u>	<u>(121,932,165)</u>
<b>Management expenses</b>		<u>(130,580,880)</u>	<u>(142,019,897)</u>	<u>(155,818,178)</u>	<u>(82,990,960)</u>	<u>(111,513,251)</u>
<b>Other operating expenses</b>		<u>(14,076,014)</u>	<u>(13,698,956)</u>	<u>(13,850,714)</u>	<u>(6,797,353)</u>	<u>(6,874,772)</u>
		<u>(390,875,152)</u>	<u>(393,606,494)</u>	<u>(391,800,157)</u>	<u>(209,489,330)</u>	<u>(240,320,188)</u>
<b>Amounts transferred to combined income statements</b>		<u>18,616,904</u>	<u>44,385,359</u>	<u>248,747,566</u>	<u>75,892,991</u>	<u>88,371,483</u>

The notes in section VI form part of this Financial Information.

## II COMBINED INCOME STATEMENTS

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005 (unaudited)	2006
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Turnover</b> .....	4	1,173,057,469	1,132,661,602	1,099,506,970	602,283,370	568,720,727
Amounts transferred from combined revenue accounts .....		18,616,904	44,385,359	248,747,566	75,892,991	88,371,483
Revaluation (deficit)/surplus of investment properties .....	13	(27,530,253)	52,899,145	181,896,112	117,555,190	19,252,371
Other revenue .....	5	55,219,940	49,606,572	93,550,020	31,981,918	45,041,579
Other net income .....	6	42,355,244	27,408,045	25,659,086	7,607,776	48,684,572
Administrative expenses .....		(9,936,026)	(5,390,646)	(17,282,320)	(8,444,902)	(5,258,593)
Other operating expenses .....		(3,104,317)	(2,619,878)	(1,564,050)	(782,789)	(606,209)
<b>Profit from operations</b> .....		75,621,492	166,288,597	531,006,414	223,810,184	195,485,203
Share of profits/(losses) of associates		1,514,659	709,496	3,025,190	1,303,713	(254,913)
<b>Profit before taxation</b> .....	7	77,136,151	166,998,093	534,031,604	225,113,897	195,230,290
Income tax (charge)/credit .....	8(a)	(3,887,973)	17,941,213	35,982,452	(2,994,179)	(4,083,766)
<b>Profit for the year/period</b> .....		73,248,178	184,939,306	570,014,056	222,119,718	191,146,524
<b>Attributable to:</b>						
Equity shareholders of the Company .		73,363,227	184,939,384	570,011,187	222,116,757	191,146,533
Minority interests .....		(115,049)	(78)	2,869	2,961	(9)
		73,248,178	184,939,306	570,014,056	222,119,718	191,146,524
Dividends .....	11	–	–	–	–	–
<b>Earnings per share</b>						
Basic .....	12	0.03	0.08	0.26	0.10	0.09

The notes in section VI form part of this Financial Information.

## III COMBINED BALANCE SHEETS

	Note	31 December			30 June
		2003	2004	2005	2006
		HK\$	HK\$	HK\$	HK\$
<b>Assets</b>					
Fixed assets					
– Investment properties	13	704,456,587	743,354,810	929,437,629	948,690,000
– Interests in leasehold land held for own use under operating leases	13	196,376,235	214,155,344	232,336,845	227,339,746
– Property and equipment	13	115,132,571	113,373,091	112,707,093	112,236,621
Interests in associates	15	18,393,085	17,954,695	19,979,347	5,723,204
Statutory deposits	16	35,580,000	58,656,888	58,540,501	70,298,216
Deferred tax assets	8(d)	400,732	24,798,418	69,396,103	69,396,103
Investments in securities	17	431,833,682	535,147,627	452,908,457	531,742,450
Insurance receivables	18	1,494,118,281	1,355,427,421	1,154,952,724	343,365,920
Unsecured loans		20,782,510	–	–	–
Other receivables	19	24,464,955	24,108,117	30,103,955	36,315,410
Reinsurers' share of insurance funds	20	1,843,425,679	1,401,617,261	1,256,833,274	1,284,510,582
Amount due from the immediate holding company	21	–	44,270	–	2,454
Amounts due from fellow subsidiaries	21	9,600,839	137,111,514	116,550,794	40,121,215
Deposits with banks with original maturity more than three months		106,691,435	34,869,021	16,851,692	16,822,710
Cash and cash equivalents	22	789,191,808	625,456,176	814,543,198	1,744,149,384
		<u>5,790,448,399</u>	<u>5,286,074,653</u>	<u>5,265,141,612</u>	<u>5,430,714,015</u>
<b>Liabilities</b>					
Insurance funds	20	4,313,202,955	3,663,711,233	3,191,646,676	3,065,901,163
Insurance protection fund	23	3,015,742	4,081,904	109,676	280,490
Insurance payables	24	496,381,136	485,409,712	409,804,674	397,244,545
Other payables	25	41,110,003	35,590,420	43,876,606	69,371,364
Amount due to the immediate holding company	21	259,619	–	–	–
Amounts due to fellow subsidiaries	21	10,649,304	223,966	228,811	229,752
Current taxation	8(c)	5,990,666	8,641,223	9,140,183	6,140,513
		<u>4,870,609,425</u>	<u>4,197,658,458</u>	<u>3,654,806,626</u>	<u>3,539,167,827</u>
<b>Net assets</b>		<u>919,838,974</u>	<u>1,088,416,195</u>	<u>1,610,334,986</u>	<u>1,891,546,188</u>
<b>Capital and reserves</b>					
Share capital		1,336,000,000	1,336,000,000	1,336,000,000	1,336,000,000
Reserves		(416,188,682)	(247,611,383)	274,304,539	555,546,188
<b>Total equity attributable to equity shareholders of the Company</b>		<u>919,811,318</u>	<u>1,088,388,617</u>	<u>1,610,304,539</u>	<u>1,891,546,188</u>
<b>Minority interest</b>		<u>27,656</u>	<u>27,578</u>	<u>30,447</u>	<u>–</u>
<b>Total equity</b>		<u>919,838,974</u>	<u>1,088,416,195</u>	<u>1,610,334,986</u>	<u>1,891,546,188</u>

The notes in section VI form part of this Financial Information.

## IV COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company									
	Share capital	General reserve	Reserve required under local regulatory requirement	Capital reserve	Exchange reserve	Fair value reserve	(Accumulated losses)/ Retained profits	Total	Minority interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>At 1 January 2003</b> .....	1,336,000,000	50,000,000	-	15,089,193	-	(5,947,761)	(717,593,177)	677,548,255	(2,823,509)	674,724,746
Profit for the year .....	-	-	-	-	-	-	73,363,227	73,363,227	(115,049)	73,248,178
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale securities .....	-	-	-	-	-	165,648,465	-	165,648,465	-	165,648,465
- Transfer to combined income statements on disposal .....	-	-	-	-	-	3,251,371	-	3,251,371	-	3,251,371
Purchase of shares from minority interests .....	-	-	-	-	-	-	-	-	2,966,214	2,966,214
<b>At 31 December 2003</b> .....	1,336,000,000	50,000,000	-	15,089,193	-	162,952,075	(644,229,950)	919,811,318	27,656	919,838,974
<b>At 1 January 2004</b> .....	1,336,000,000	50,000,000	-	15,089,193	-	162,952,075	(644,229,950)	919,811,318	27,656	919,838,974
Profit for the year .....	-	-	-	-	-	-	184,939,384	184,939,384	(78)	184,939,306
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale securities .....	-	-	-	-	-	(11,263,455)	-	(11,263,455)	-	(11,263,455)
- Transfer to combined income statements on disposal .....	-	-	-	-	-	(5,098,630)	-	(5,098,630)	-	(5,098,630)
<b>At 31 December 2004</b> .....	1,336,000,000	50,000,000	-	15,089,193	-	146,589,990	(459,290,566)	1,088,388,617	27,578	1,088,416,195
<b>At 1 January 2005</b> .....	1,336,000,000	50,000,000	-	15,089,193	-	146,589,990	(459,290,566)	1,088,388,617	27,578	1,088,416,195
Profit for the year .....	-	-	-	-	-	-	570,011,187	570,011,187	2,869	570,014,056
Transfer to retained profits .....	-	(50,000,000)	-	-	-	-	50,000,000	-	-	-
Transfer to reserve required under local regulatory requirement .....	-	-	2,384,433	-	-	-	(2,384,433)	-	-	-
Goodwill written off .....	-	-	-	(3,188)	-	-	-	(3,188)	-	(3,188)
Exchange difference on translation of financial statements of foreign subsidiaries .....	-	-	-	-	4,313,894	-	-	4,313,894	-	4,313,894
Change in fair value of available-for-sale securities .....	-	-	-	-	-	(52,405,971)	-	(52,405,971)	-	(52,405,971)
<b>At 31 December 2005</b> .....	1,336,000,000	-	2,384,433	15,086,005	4,313,894	94,184,019	158,336,188	1,610,304,539	30,447	1,610,334,986

## IV COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributable to equity shareholders of the Company									
	Share capital	General reserve	Reserve required under local regulatory requirement	Capital reserve	Exchange reserve	Fair value reserve	(Accumulated losses)/ Retained profits	Total	Minority interests	Total equity
<b>At 1 January 2005</b> .....	1,336,000,000	50,000,000	-	15,089,193	-	146,589,990	(459,290,566)	1,088,388,617	27,578	1,088,416,195
Profit for the period (unaudited) .....	-	-	-	-	-	-	222,116,757	222,116,757	2,961	222,119,718
Transfer to reserve required under local regulatory requirement (unaudited) .....	-	-	1,819,474	-	-	-	(1,819,474)	-	-	-
Goodwill written off (unaudited) .....	-	-	-	(3,188)	-	-	-	(3,188)	-	(3,188)
Change in fair value of available-for-sale securities (unaudited) .....	-	-	-	-	-	(1,476,492)	-	(1,476,492)	-	(1,476,492)
<b>At 30 June 2005 (unaudited)</b> .....	1,336,000,000	50,000,000	1,819,474	15,086,005	-	145,113,498	(238,993,283)	1,309,025,694	30,539	1,309,056,233
<b>At 1 January 2006</b> .....	1,336,000,000	-	2,384,433	15,086,005	4,313,894	94,184,019	158,336,188	1,610,304,539	30,447	1,610,334,986
Profit for the period .....	-	-	-	-	-	-	191,146,533	191,146,533	(9)	191,146,524
Transfer to reserve required under local regulatory requirement .....	-	-	2,669,669	-	-	-	(2,669,669)	-	-	-
Available-for-sale securities	-	-	-	-	-	-	-	-	-	-
- Change in fair value of available-for-sale securities .....	-	-	-	-	-	120,491,085	-	120,491,085	-	120,491,085
- Transfer to combined income statements on disposal .....	-	-	-	-	-	(30,395,969)	-	(30,395,969)	-	(30,395,969)
Purchase of shares from minority interests .....	-	-	-	-	-	-	-	-	(30,438)	(30,438)
<b>At 30 June 2006</b> .....	1,336,000,000	-	5,054,102	15,086,005	4,313,894	184,279,135	346,813,052	1,891,546,188	-	1,891,546,188

The notes in section VI form part of this Financial Information.



## V COMBINED CASH FLOW STATEMENTS

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	(unaudited) <i>HK\$</i>	<i>HK\$</i>
<b>Operating activities</b>						
Profit before taxation		77,136,151	166,998,093	534,031,604	225,113,897	195,230,290
Adjustments for:						
– Interest income		(16,630,852)	(11,749,030)	(23,446,725)	(7,312,253)	(19,441,223)
– Dividend income		(4,330,766)	(8,123,574)	(40,528,983)	(10,776,813)	(5,210,099)
– Depreciation		7,830,548	8,433,482	8,138,444	3,905,582	3,580,157
– Exchange loss		–	–	1,162,155	–	–
– Revaluation deficit/(surplus) of investment properties		27,530,253	(52,899,145)	(181,896,112)	(117,555,190)	(19,252,371)
– Net (gains)/losses on disposal of investment properties		(13,849,815)	3,572,824	(80,000)	(80,000)	–
– Net (gains)/losses on disposal of property and equipment		(336,975)	17,065	56,766	–	33,339
– Impairment loss of land and buildings provided/ (written back)		169,959	(2,239,629)	(2,556,101)	(2,387,460)	(1,901,801)
– Net impairment loss of interests in leasehold land held for own use under operating leases provided/(written back)		6,577,479	(18,158,786)	(22,341,006)	(4,296,353)	4,858,224
– Net gains on disposal of available-for-sale securities		(2,094,985)	(9,556,252)	–	–	(37,582,869)
– Net gains on disposal of securities held for trading		(15,894,103)	(3,005,308)	(1,602,253)	(80,672)	(4,399,624)
– Impairment losses on available-for-sale securities		3,020,957	785,520	–	–	–
– Unrealised (gains)/losses on securities held for trading		(11,165,702)	2,055,517	3,561,292	(69,673)	(4,059,935)
– Goodwill written off/(arisen from) acquisition of a subsidiary		3,316,214	–	(3,188)	(3,188)	(30,438)
– Losses on disposal of subsidiaries		–	–	–	–	1,101,818
– Loss on disposal of an associate		17,354	147,886	–	–	231
– Share of (profits)/losses of associates		(1,514,659)	(709,496)	(3,025,190)	(1,303,713)	254,913
<b>Operating profit before changes in working capital</b>		59,781,058	75,569,167	271,470,703	85,154,164	113,180,612

## V COMBINED CASH FLOW STATEMENTS (Continued)

	<i>Note</i>	Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
		HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Decrease/(increase) in statutory deposits .....		10,760,780	(23,076,888)	116,387	(6,222)	(11,757,715)
Decrease/(increase) in insurance receivables .....		172,131,202	138,690,860	200,923,103	(26,770,225)	811,586,804
Decrease/(increase) in other receivables .....		9,977,828	2,505,306	(3,935,274)	(2,822,838)	(5,296,998)
Decrease/(increase) in amount due from the immediate holding company .....		619,619	(303,889)	44,270	(14,095,288)	(2,454)
Decrease/(increase) in amounts due from fellow subsidiaries .....		3,723,468	(127,510,675)	20,560,720	68,523,120	76,430,520
Decrease/(increase) in reinsurers' share of insurance funds .....		405,229,143	441,808,418	145,820,836	13,191,349	(27,677,308)
Decrease in insurance funds .....		(737,342,861)	(649,491,722)	(474,127,779)	(91,633,753)	(125,745,513)
Increase/(decrease) in insurance protection funds .....		791,741	1,066,162	(3,972,228)	(49,570)	170,814
Decrease in insurance payables .....		(100,038,509)	(10,971,424)	(76,271,680)	(51,384,245)	(12,560,129)
(Decrease)/increase in other payables .....		(9,776,261)	(5,519,583)	8,264,554	19,255,306	25,494,758
Increase/(decrease) in amounts due to fellow subsidiaries .....		10,649,304	(10,425,338)	4,845	–	–
Decrease in amounts due from associates .....		1,550,000	–	–	–	9,660,000
<b>(Decrease)/increase in working capital .....</b>		<b>(231,724,546)</b>	<b>(243,228,773)</b>	<b>(182,572,246)</b>	<b>(85,792,366)</b>	<b>740,302,779</b>
<b>Net cash (used in)/generated from operations .....</b>		<b>(171,943,488)</b>	<b>(167,659,606)</b>	<b>88,898,457</b>	<b>(638,202)</b>	<b>853,483,391</b>
Tax paid – PRC Income Tax paid ....		(3,773,345)	(3,805,916)	(8,160,386)	(6,333,498)	(7,083,436)
<b>Net cash (used in)/generated from operating activities .....</b>		<b>(175,716,833)</b>	<b>(171,465,522)</b>	<b>80,738,071</b>	<b>(6,971,700)</b>	<b>846,399,955</b>

## V COMBINED CASH FLOW STATEMENTS (Continued)

	Note	Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
		HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
<b>Investing activities</b>						
Dividend received from						
an associate .....		1,000,000	1,000,000	998,925	–	–
Dividend income .....		4,330,766	8,123,574	40,528,983	10,776,813	5,210,099
Interest income .....		18,784,571	9,600,562	21,418,188	7,106,704	18,519,661
(Increase)/decrease in deposits						
with banks with original maturity						
more than three months .....		(34,431,485)	71,822,414	18,017,329	(58,788,643)	28,982
Proceeds from disposal of property						
and equipment .....		1,460,713	–	–	–	–
Proceeds from disposal of						
available-for-sale securities .....		22,807,155	11,857	–	–	40,521,710
Proceeds from disposal of securities						
held for trading .....		576,429,010	90,317,563	104,412,608	9,534,304	57,385,328
Proceeds from disposal of investment						
properties .....		93,463,432	10,428,097	1,260,000	1,260,000	–
Repayments from unsecured loans ..		10,372,950	20,782,510	–	–	–
Payment for acquisition						
of subsidiaries .....		(350,000)	–	–	–	–
Proceeds from disposal of subsidiaries		–	–	–	–	1,757,842
Proceeds from disposal of an associate		–	–	–	–	4,340,999
Payments for purchases of securities						
held for trading .....		(408,660,076)	(200,284,926)	(76,815,377)	(51,346,290)	(43,456,042)
Payments for purchases of						
available-for-sale securities .....		–	–	(23,400)	(23,400)	–
Payment for purchases of investment						
properties .....		(4,750,000)	–	–	–	–
Payments for purchases of property						
and equipment .....		(2,352,322)	(4,071,761)	(6,018,001)	(3,585,855)	(1,102,348)
<b>Net cash generated from/(used in)</b>						
<b>    investing activities .....</b>		<u>278,104,714</u>	<u>7,729,890</u>	<u>103,779,255</u>	<u>(85,066,367)</u>	<u>83,206,231</u>
<b>Net increase/(decrease) in cash</b>						
<b>    and cash equivalents .....</b>		102,387,881	(163,735,632)	184,517,326	(92,038,067)	929,606,186
<b>Effects of foreign exchange</b>						
<b>    rate changes .....</b>		–	–	4,569,696	–	–
<b>Cash and cash equivalents</b>						
<b>    at beginning of year .....</b>		<u>686,803,927</u>	<u>789,191,808</u>	<u>625,456,176</u>	<u>625,456,176</u>	<u>814,543,198</u>
<b>Cash and cash equivalents</b>						
<b>    at end of year/period .....</b>	22	<u><u>789,191,808</u></u>	<u><u>625,456,176</u></u>	<u><u>814,543,198</u></u>	<u><u>533,418,109</u></u>	<u><u>1,744,149,384</u></u>

The notes in section VI form part of this Financial Information.

## VI NOTES TO THE FINANCIAL INFORMATION

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**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***1 Basis of presentation of Financial Information**

The Group is 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, rather than from the date of incorporation of The Ming An (Holdings) Company Limited. Accordingly, the Group's combined revenue accounts, combined income statements and combined 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, where there is a shorter period. The Group's combined balance sheets as at 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 at the respective dates.

For the purpose of the Financial Information, the People's Republic of China ("the PRC") does not include Taiwan, Hong Kong and Macau.

**2 Significant accounting policies****(a) Statement of compliance**

The Financial Information has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

The Financial Information also conforms with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

With effect from 1 January 2005, all HKFRSs have been converged with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects from the same date.

All the new/revised HKFRSs relevant to the Group's operations have been applied retrospectively in the preparation of the Financial Information throughout the Relevant Periods. The accounting policies set out below have been applied consistently by the Group and to the Relevant Periods presented in the Financial Information.

**(b) Basis of preparation**

The measurement basis used in the preparation of the Financial Information is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (see note 2(l)); and
- financial instruments classified as securities held for trading and available-for-sale securities (see note 2(k)).

**(c) Use of estimates in the preparation of Financial Information**

The preparation of the Financial Information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure. The Group's insurance liabilities comprise provision for unearned premiums, provision for outstanding claims and provision for unexpired risks. The Group determines these estimates on the basis of historical information, actuarial analyses, financing modelling and other analytical techniques. The directors continually review the estimates and make adjustments as necessary, but actual results could differ significantly from what is envisioned when these estimates are made.

**(d) Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****2 Significant accounting policies (continued)****(d) Subsidiaries (continued)**

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the combined balance sheets and the combined statements of changes in equity within equity, separately from the equity attributable to the combined equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the combined income statements as an allocation of the total profit or loss for the year/period between the minority interests and the equity shareholders of the Company.

Where losses attributable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(n)).

**(e) Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Financial Information under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The combined income statements include the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year/period (see notes 2(f) and 2(n)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the combined income statements.

**(f) Goodwill**

Goodwill arising on consolidation or investment in an associate represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment losses (see note 2(n)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

Any excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the consideration paid for the acquisition of subsidiaries and associates is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(g) Classification of contracts**

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

**(h) Recognition and measurement of insurance contracts**

(i) General insurance business is accounted for on an annual basis.

**(ii) Premiums**

Written premiums from direct and reinsurance businesses are recognised on the risk inception date and earned on a pro-rata basis over the term of the related policy coverage.

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****2 Significant accounting policies (continued)****(h) Recognition and measurement of insurance contracts (continued)****(iii) Claims**

Insurance claims are recognised when they are incurred. Incurred claims arising in a year/period include the losses and related handling costs paid during the year/period and the change in the provision for outstanding claims during the year/period. Provision for outstanding claims falls into two categories: case reserves for reported claims and reserves for incurred but not reported claims ("IBNR"). Provision for outstanding claims is reported on an undiscounted basis.

The Group estimates reported claims on an individual basis, based on past experience of similar losses and the judgment of experienced claims handlers. Estimates of reported claims are reviewed and revised quarterly when more accurate information is available. This process is regularly reviewed by comparing the estimated amount and the final settlement amount of a claim to ensure that the established reserving policies are reasonable.

IBNR is established to recognise the estimated cost of losses that have been incurred but of which the Group has not yet been notified as well as 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 ("BF method") and the paid and incurred loss development method.

At each balance sheet date, the Group reviews its unexpired risks and carries out a liability adequacy test for each class of insurance on the basis of estimates of future claims and related claims handling costs and premiums earned. A premium deficiency is recognised if the sum of expected claim costs and claim handling costs exceeds related unearned premiums while considering the anticipated investment income.

**(iv) Reinsurance**

Premiums ceded for reinsurance are deducted from gross premiums written and earned and reinsurance recoveries on claims incurred are deducted from gross incurred claims. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for businesses ceded and accepted. Amounts recoverable from reinsurers are estimated with reference to the relevant reinsurance contracts.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises the impairment loss in the combined income statements.

Premiums ceded, reinsurers' share of claims paid and the related payables and receivables are presented separately in the combined revenue accounts and the combined balance sheets.

Reinsurers' share of insurance funds represents the balances due from reinsurance companies for ceded insurance liabilities. It includes the reinsurers' share of provision for unearned premiums, provision for outstanding claims and provision for unexpired risks, which are presented separately in the combined balance sheets.

**(v) Insurance funds****(i) Provision for unearned premiums**

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

Prior to 1 January 2005, provision for unearned premiums was calculated using the 1/24th method. With effect from 1 January 2005, in order to more accurately reflect the proportion of retained premiums relating to the period subsequent to the year/period end, the Group has changed the method of estimate of the provision for unearned premiums to the 1/365th method. The effect of the change of accounting estimates was to decrease the net provision of unearned premiums by HK\$43 million, HK\$43 million and HK\$34 million for the periods/year ended 30 June 2005, 31 December 2005 and 30 June 2006 respectively.

**(ii) Provision for outstanding claims**

Provision for outstanding claims represents estimated liabilities in respect of case reserves for reported claims and IBNR after deducting amounts recoverable from reinsurers. The basis of provision is set out in note 20(v).

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***2 Significant accounting policies** *(continued)***(h) Recognition and measurement of insurance contracts** *(continued)***(v) Insurance funds** *(continued)***(iii) Provision for unexpired risks**

Provision for unexpired risks represents the excess of the estimated value of claims and related claims handling costs 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.

**(i) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the combined revenue accounts or the combined income statements as follows:

**(i) Premium income**

The accounting policy in relation to the recognition of premium income from insurance contracts is set out in note 2(h).

**(ii) Commission income**

Commission income is recognised as revenue on the effective commencement or renewal dates of the related reinsurance contracts.

**(iii) Rental income from operating leases**

Rental income receivable under operating leases is recognised in the combined income statements in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the combined income statements as an integral part of the aggregate net lease payments receivable.

**(iv) Dividends**

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

**(v) Interest income**

- Interest income is recognised as it accrues using the effective interest method.

**(j) Management expenses**

Management expenses incurred for operating the business are allocated proportionately to the combined revenue accounts and combined income statements based on the proportion of staff costs attributable to insurance operations and investment and other activities.

**(k) Financial instruments**

(i) Financial instruments are classified into securities held for trading, available-for-sale securities and loans and receivables. The Group's accounting policies are as follows:

**(a) Securities held for trading**

Securities that have been acquired or incurred principally for the purpose of selling or repurchasing in the near term are classified as securities held for trading and are initially stated at fair value.

At each balance sheet date, the fair value is remeasured. Realised gains and losses and unrealised gains and losses arising from changes in fair value are included in the combined income statements in the period in which they arise.



**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****2 Significant accounting policies (continued)****(k) Financial instruments (continued)**

(i) Financial instruments are classified into securities held for trading, available-for-sale securities and loans and receivables. The Group's accounting policies are as follows: (continued)

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise loans to subsidiaries granted by the Group, insurance receivables due from policyholders, insurers and reinsurers and other receivables.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, if any (see note 2(n)). Where the effect of discounting is immaterial, loans and receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(n)).

**(c) Available-for-sale securities**

Available-for-sale securities are those that are either designated in this category or are not classified as in any of the other categories. Available-for-sale securities are initially recognised at fair value.

Unrealised gains or losses from changes in fair value are recognised in equity until the security is derecognised or impaired, at which time the cumulative unrealised gains or losses previously recognised in equity will be transferred to the combined income statements. When these securities are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

(ii) Financial instruments are recognised/derecognised on the date the Group commits to purchase/sell the financial instruments or they expire.

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

**(l) Fixed assets****(i) Investment properties**

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(m)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the combined balance sheets at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

**(ii) Property and equipment**

The following property and equipment held for own use are carried in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 2(n)):

- land held under operating leases and buildings thereon, where the fair values of the leasehold interests in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 2(m));
- buildings held for own use which are situated on leasehold land, where the fair values of the buildings could be measured separately from the fair value of leasehold land at the inception of the lease (see note 2(m)); and
- furniture and equipment.

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***2 Significant accounting policies** *(continued)***(l) Fixed assets** *(continued)*

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the combined income statements on the date of retirement or disposal.

(v) Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- In Hong Kong, buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 50 years.
- Outside Hong Kong, buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 20 years.
- Furniture and equipment are depreciated over 5 years.

**(m) Leased assets****(i) Classification of assets leased to the Group**

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For those purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, if later.

**(ii) Assets acquired under finance leases**

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(1)(v). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(n). Finance charges implicit in the lease payments are charged to the combined income statements over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

**(iii) Operating lease charges**

Where the Group has the use of assets including land held for own use under operating leases, payments made under the leases are charged to the combined income statements in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

The cost of acquiring land held for own use under an operating lease is amortised on a straight-line basis over the period of the lease term.

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****2 Significant accounting policies (continued)****(n) Impairment of assets****(i) Impairment of investments in securities and loans and receivables**

Investments in securities and loans and receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unlisted equity securities and loans and receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale equity securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment;
- interests in leasehold land held for own use classified as being held under an operating lease; and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in the combined income statements whenever the carrying amount of such asset exceeds its recoverable amount.

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***2 Significant accounting policies** *(continued)***(n) Impairment of assets** *(continued)***(ii) Impairment of other assets** *(continued)*

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the combined income statements in the year in which the reversals are recognised.

**(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**(p) Employee benefits**

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution plans and the cost to the Group of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**(q) Income tax**

(i) Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the combined income statements except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being 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.

Apart from certain limited exceptions all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, 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 the same taxable entity, and are expected to reverse 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, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured 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 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.

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***2 Significant accounting policies** *(continued)***(q) Income tax** *(continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(r) Provisions and contingent liabilities**

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(s) Insurance and other payables**

Insurance and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which cases, they are stated at cost.

**(t) Translation of foreign currencies**

Foreign currency transactions during the year/period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the combined income statements.

The results of enterprises outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year/period; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in exchange reserve.

**(u) Related parties**

For the purposes of the Financial Information, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

**(v) Share issue costs**

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***2 Significant accounting policies** *(continued)**(w) Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of the Financial Information.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include insurance receivables and reinsurers' share of insurance funds. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

**3 Segment information**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

*(i) Business segments*

The Group comprises the following main business segments:

- |                       |   |                                                                             |
|-----------------------|---|-----------------------------------------------------------------------------|
| – Motor               | : | Own damage and third party insurance of motor                               |
| – Property            | : | Loss of or damage to property (including fire) and pecuniary loss insurance |
| – Liability           | : | Employees' compensation and other liability insurance                       |
| – Marine              | : | Cargo, logistic, hull and aircraft insurance                                |
| – Accident and health | : | Accident and medical insurance                                              |









## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 3 Segment information (continued)

## (i) Business segments (continued)

Six months ended 30 June 2005 (unaudited)

	Motor	Property	Liability	Marine	Accident and health	Unallocated	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Direct businesses	153,055,410	203,318,303	101,112,867	113,057,321	30,576,911	–	601,120,812
Reinsurance businesses accepted	–	648,964	13,649	396,960	102,985	–	1,162,558
Gross written premiums from external customers	153,055,410	203,967,267	101,126,516	113,454,281	30,679,896	–	602,283,370
Net earned premiums	146,463,494	45,844,076	79,691,288	78,007,142	28,600,089	–	378,606,089
Net claims incurred	(78,816,987)	(21,529,039)	(25,655,896)	(14,805,061)	(12,320,071)	–	(153,127,054)
Net commission (expenses)/income	(31,309,346)	6,190,086	(18,705,312)	(9,102,949)	(6,870,210)	–	(59,797,731)
Management and other operating expenses	(22,786,949)	(25,941,849)	(18,637,147)	(14,288,767)	(8,133,601)	–	(89,788,313)
Segment results	13,550,212	4,563,274	16,692,933	39,810,365	1,276,207	–	75,892,991
Unallocated operating income and expenses	–	–	–	–	–	147,917,193	147,917,193
Profit from operations	13,550,212	4,563,274	16,692,933	39,810,365	1,276,207	147,917,193	223,810,184
Share of profits of associates	–	–	–	–	–	1,303,713	1,303,713
Profit before taxation	13,550,212	4,563,274	16,692,933	39,810,365	1,276,207	149,220,906	225,113,897
Income tax charge	–	–	–	–	–	(2,994,179)	(2,994,179)
Profit for the period	13,550,212	4,563,274	16,692,933	39,810,365	1,276,207	146,226,727	222,119,718
Significant non-cash (expenses)/income:							
– Depreciation for the period	(953,863)	(1,072,250)	(849,461)	(630,876)	(389,338)	(9,794)	(3,905,582)
– Change in net provision for unearned premiums	17,412,067	(43,775,708)	3,027,256	20,686,199	1,674,801	–	(975,385)
– Change in net provision for outstanding claims	(22,251,948)	(9,637,736)	116,450,790	(130,562)	(5,012,740)	–	79,417,804

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 3 Segment information (continued)

## (i) Business segments (continued)

	Six months ended 30 June 2006						
	Motor	Property	Liability	Marine	Accident and health	Unallocated	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Direct businesses .....	128,121,018	177,151,763	105,428,861	119,009,881	37,837,099	–	567,548,622
Reinsurance businesses accepted ...	150,366	551,193	70,517	336,718	63,311	–	1,172,105
Gross written premiums from external customers .....	128,271,384	177,702,956	105,499,378	119,346,599	37,900,410	–	568,720,727
Net earned premiums .....	131,942,244	44,072,215	66,661,099	47,967,295	26,943,310	–	317,586,163
Net claims (incurred)/recovered ....	(10,270,966)	7,059,369	(34,767,539)	(10,679,835)	(8,081,052)	–	(56,740,023)
Change in net provision for unexpired risks .....	–	–	9,507,000	–	–	–	9,507,000
Net commission (expenses)/income .....	(36,421,002)	1,911,808	(16,654,787)	(4,829,864)	(7,599,789)	–	(63,593,634)
Management and other operating expenses .....	(25,333,187)	(33,135,326)	(26,701,009)	(21,161,501)	(12,057,000)	–	(118,388,023)
Segment results .....	59,917,089	19,908,066	(1,955,236)	11,296,095	(794,531)	–	88,371,483
Unallocated operating income and expenses .....	–	–	–	–	–	107,113,720	107,113,720
Profit/(loss) from operations .....	59,917,089	19,908,066	(1,955,236)	11,296,095	(794,531)	107,113,720	195,485,203
Share of losses of associates .....	–	–	–	–	–	(254,913)	(254,913)
Profit/(loss) before taxation .....	59,917,089	19,908,066	(1,955,236)	11,296,095	(794,531)	106,858,807	195,230,290
Income tax charge .....	–	–	–	–	–	(4,083,766)	(4,083,766)
Profit/(loss) for the period .....	59,917,089	19,908,066	(1,955,236)	11,296,095	(794,531)	102,775,041	191,146,524
Significant non-cash (expenses)/income:							
– Depreciation for the period .....	(771,178)	(1,180,040)	(711,902)	(581,327)	(327,352)	(8,358)	(3,580,157)
– Change in net provision for unearned premiums .....	16,197,165	(7,605,080)	(11,226,846)	(4,098,138)	(7,042,189)	–	(13,775,088)
– Change in net provision for outstanding claims .....	48,531,195	16,775,915	87,291,452	4,334,918	757,429	–	157,690,909
– Change in net provision for unexpired risks .....	–	–	9,507,000	–	–	–	9,507,000
	<b>30 June 2006</b>						
	Motor	Property	Liability	Marine	Accident and health	Unallocated	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets .....	223,389,689	349,167,325	839,297,910	194,244,472	21,777,106	–	1,627,876,502
Unallocated assets .....	–	–	–	–	–	3,802,837,513	3,802,837,513
Total assets .....	223,389,689	349,167,325	839,297,910	194,244,472	21,777,106	3,802,837,513	5,430,714,015
Segment liabilities .....	785,648,745	467,315,531	1,826,203,458	334,474,397	49,503,577	–	3,463,145,708
Unallocated liabilities .....	–	–	–	–	–	76,022,119	76,022,119
Total liabilities .....	785,648,745	467,315,531	1,826,203,458	334,474,397	49,503,577	76,022,119	3,539,167,827
Capital expenditure incurred during the period .....	15,980	–	32,480	–	13,300	1,040,588	1,102,348

Revenue, expenses, assets and liabilities that are not attributable to particular classes of business are not allocated. Unallocated segment assets and liabilities mainly comprise fixed assets, investments in securities, intercompany balances, other payables and tax balances. Unallocated segment revenue and expenses mainly comprise revaluation (deficit)/surplus of investment properties, investment income, interest income and non-insurance related expenses.



## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 3 Segment information (continued)

## (ii) Geographical segments (continued)

	Year ended 31 December 2004		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Direct businesses .....	924,242,621	202,758,528	1,127,001,149
Reinsurance businesses accepted .....	5,660,453	–	5,660,453
Gross written premiums from external customers .....	929,903,074	202,758,528	1,132,661,602
Net earned premiums .....	580,321,630	95,421,685	675,743,315
Net claims incurred .....	(337,542,479)	(30,707,833)	(368,250,312)
Change in net provision for unexpired risks .....	15,000,000	–	15,000,000
Net commission (expenses)/income .....	(130,113,446)	7,724,655	(122,388,791)
Management and other operating expenses .....	(115,181,897)	(40,536,956)	(155,718,853)
Segment results .....	12,483,808	31,901,551	44,385,359
Unallocated operating income and expenses .....	117,215,501	4,687,737	121,903,238
Profit from operations .....	129,699,309	36,589,288	166,288,597
Share of profits of associates .....	709,496	–	709,496
Profit before taxation .....	130,408,805	36,589,288	166,998,093
Income tax credit/(charge) .....	23,228,549	(5,287,336)	17,941,213
Profit for the year .....	153,637,354	31,301,952	184,939,306
	31 December 2004		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Segment assets .....	4,871,843,050	414,231,603	5,286,074,653
Segment liabilities .....	3,809,684,809	387,973,649	4,197,658,458
Capital expenditure incurred during the year .....	3,605,378	466,383	4,071,761

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 3 Segment information (continued)

## (ii) Geographical segments (continued)

	Year ended 31 December 2005		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Direct businesses	832,689,916	264,811,805	1,097,501,721
Reinsurance businesses accepted	2,005,249	–	2,005,249
Gross written premiums from external customers	834,695,165	264,811,805	1,099,506,970
Net earned premiums	586,457,415	119,599,858	706,057,273
Net claims incurred	(103,571,407)	(49,289,498)	(152,860,905)
Change in net provision for unexpired risks	(12,000,000)	–	(12,000,000)
Net commission (expenses)/income	(123,200,522)	420,612	(122,779,910)
Management and other operating expenses	(114,479,697)	(55,189,195)	(169,668,892)
Segment results	233,205,789	15,541,777	248,747,566
Unallocated operating income and expenses	274,185,384	8,073,464	282,258,848
Profit from operations	507,391,173	23,615,241	531,006,414
Share of profits of associates	3,025,190	–	3,025,190
Profit before taxation	510,416,363	23,615,241	534,031,604
Income tax credit/(charge)	44,700,000	(8,717,548)	35,982,452
Profit for the year	555,116,363	14,897,693	570,014,056
	31 December 2005		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Segment assets	4,639,482,353	625,659,259	5,265,141,612
Segment liabilities	3,349,190,468	305,616,158	3,654,806,626
Capital expenditure incurred during the year	3,225,433	2,792,568	6,018,001
	Six months ended 30 June 2005 (unaudited)		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Direct businesses	442,248,778	158,872,034	601,120,812
Reinsurance businesses accepted	1,162,558	–	1,162,558
Gross written premiums from external customers	443,411,336	158,872,034	602,283,370
Net earned premiums	320,031,951	58,574,138	378,606,089
Net claims incurred	(131,484,521)	(21,642,533)	(153,127,054)
Net commission (expenses)/income	(61,524,915)	1,727,184	(59,797,731)
Management and other operating expenses	(65,252,435)	(24,535,878)	(89,788,313)
Segment results	61,770,080	14,122,911	75,892,991
Unallocated operating income and expenses	147,349,678	567,515	147,917,193
Profit from operations	209,119,758	14,690,426	223,810,184
Share of profits of associates	1,303,713	–	1,303,713
Profit before taxation	210,423,471	14,690,426	225,113,897
Income tax charge	–	(2,994,179)	(2,994,179)
Profit for the period	210,423,471	11,696,247	222,119,718

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 3 Segment information (continued)

## (ii) Geographical segments (continued)

	Six months ended 30 June 2006		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Direct businesses .....	452,126,710	115,421,912	567,548,622
Reinsurance businesses accepted .....	1,170,884	1,221	1,172,105
Gross written premiums from external customers .....	<u>453,297,594</u>	<u>115,423,133</u>	<u>568,720,727</u>
Net earned premiums .....	258,959,392	58,626,771	317,586,163
Net claims incurred .....	(32,649,738)	(24,090,285)	(56,740,023)
Change in net provision for unexpired risks .....	9,507,000	–	9,507,000
Net commission (expenses)/income .....	(64,288,935)	695,301	(63,593,634)
Management and other operating expenses .....	<u>(90,889,327)</u>	<u>(27,498,696)</u>	<u>(118,388,023)</u>
Segment results .....	80,638,392	7,733,091	88,371,483
Unallocated operating income and expenses .....	<u>94,659,194</u>	<u>12,454,526</u>	<u>107,113,720</u>
Profit from operations .....	175,297,586	20,187,617	195,485,203
Share of losses of associates .....	(254,913)	–	(254,913)
Profit before taxation .....	175,042,673	20,187,617	195,230,290
Income tax charge .....	–	(4,083,766)	(4,083,766)
Profit for the period .....	<u>175,042,673</u>	<u>16,103,851</u>	<u>191,146,524</u>
	<b>30 June 2006</b>		
	HK	the PRC	Total
	HK\$	HK\$	HK\$
Segment assets .....	<u>4,773,323,884</u>	<u>657,390,131</u>	<u>5,430,714,015</u>
Segment liabilities .....	<u>3,217,924,648</u>	<u>321,243,179</u>	<u>3,539,167,827</u>
Capital expenditure incurred during the period .....	<u>670,230</u>	<u>432,118</u>	<u>1,102,348</u>

## 4 Turnover

The principal activities of the Group are the underwriting of all classes of general insurance and reinsurance business in Hong Kong and in the PRC.

Turnover represents gross written premiums, net of discounts and returns, from direct and inward reinsurance businesses during the year/period.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 5 Other revenue

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Rental income	34,226,715	29,698,410	29,574,312	13,892,852	16,850,902
Interest income					
– Debt securities	7,328,679	3,512,643	7,638,653	3,776,072	3,530,150
– Bank balances	9,302,173	8,236,387	15,808,072	3,536,181	15,911,073
Dividend income					
– Listed equity securities	2,938,768	6,671,392	11,289,717	10,063,739	4,331,353
– Unlisted equity securities	1,391,998	1,452,182	29,239,266	713,074	878,746
Bad debts recovered	31,607	35,558	–	–	3,539,355
	<u>55,219,940</u>	<u>49,606,572</u>	<u>93,550,020</u>	<u>31,981,918</u>	<u>45,041,579</u>

## 6 Other net income

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Property related income					
– Net gains/(losses) on disposal of investment properties	13,849,815	(3,572,824)	80,000	80,000	–
– Net gains/(losses) on disposal of property and equipment	336,975	(17,065)	(56,766)	–	(33,339)
– Impairment losses of land and buildings (provided)/written back	(169,959)	2,239,629	2,556,101	2,387,460	1,901,801
– Net impairment losses of interest in leasehold land held for own use under operating leases (provided)/written back	(6,577,479)	18,158,786	22,341,006	4,296,353	(4,858,224)
Investment related income					
– Net gains on disposal of available-for-sale securities	2,094,985	9,556,252	–	–	37,582,869
– Net gains on disposal of securities held for trading	15,894,103	3,005,308	1,602,253	80,672	4,399,624
– Impairment losses on available-for-sale securities	(3,020,957)	(785,520)	–	–	–
– Net unrealised gains/(losses) on securities held for trading	11,165,702	(2,055,517)	(3,561,292)	69,673	4,059,935
Fee and commission income					
– Handling fee income	1,384,260	1,048,011	790,616	260,547	249,920
– Management fee income	704,060	700,000	699,248	–	350,000
– Miscellaneous commission income	391,250	412,449	1,299,329	526,128	515,883
Others					
– Loss on disposal of an associate	(17,354)	(147,886)	–	–	(231)
– Goodwill (written off)/arisen from acquisition of a subsidiary	(3,316,214)	–	3,188	3,188	30,438
– Losses on disposal of subsidiaries	–	–	–	–	(1,101,818)
– Net foreign exchange gains/(losses)	168,195	984,280	(5,703,415)	32,289	(24,228)
– Sundry income/(losses)	9,467,862	(2,117,858)	5,608,818	(128,534)	5,611,942
	<u>42,355,244</u>	<u>27,408,045</u>	<u>25,659,086</u>	<u>7,607,776</u>	<u>48,684,572</u>



## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
(a) Staff costs:					
Contributions to defined contribution retirement plan	7,874,424	8,166,855	8,841,627	4,221,188	4,505,819
Salaries, wages and other benefits	93,290,645	93,960,356	101,438,057	56,334,997	70,205,853
	<u>101,165,069</u>	<u>102,127,211</u>	<u>110,279,684</u>	<u>60,556,185</u>	<u>74,711,672</u>
(b) Other items:					
Auditors' remuneration					
– audit	947,032	1,083,626	1,252,690	625,775	616,435
– tax	–	32,070	143,954	–	22,000
Depreciation	7,830,548	8,433,482	8,138,444	3,905,582	3,580,157
Operating lease charges in respect of land and buildings	1,484,390	1,451,315	1,819,452	834,912	937,342
Impairment losses provided/(reversed)					
– fixed assets	6,747,438	(20,398,415)	(24,897,107)	(6,683,813)	2,956,423
– insurance receivables	(593,846)	1,905,242	12,437,650	5,733,835	2,263,785
Rentals receivable from investment properties less direct outgoings	(31,982,983)	(27,151,249)	(27,482,115)	(12,754,171)	(16,012,076)
– direct outgoings	2,243,732	2,547,161	2,092,197	1,138,681	838,826
Share of associates' taxation	2,310	(141,958)	237,458	237,458	121,649

## 8 Income tax

## (a) Taxation in the combined income statements represents

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
<b>Current tax — Hong Kong Profits Tax</b>					
Tax for the year	–	1,271,451	–	–	–
<b>Current tax — the PRC</b>					
Tax for the year	3,785,659	5,185,022	6,880,005	1,264,427	4,027,462
Under-provision in respect of prior years	–	–	1,729,752	1,729,752	56,304
	<u>3,785,659</u>	<u>5,185,022</u>	<u>8,609,757</u>	<u>2,994,179</u>	<u>4,083,766</u>
<b>Deferred tax</b>					
Origination and reversal of temporary differences	102,314	(24,397,686)	(44,592,209)	–	–
Income tax charge/(credit)	<u>3,887,973</u>	<u>(17,941,213)</u>	<u>(35,982,452)</u>	<u>2,994,179</u>	<u>4,083,766</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the Relevant Periods.

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

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 8 Income tax (continued)

## (b) Reconciliation between tax expense and accounting profit at applicable tax rate

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Profit before tax .....	<u>77,136,151</u>	<u>166,998,093</u>	<u>534,031,604</u>	<u>225,113,897</u>	<u>195,230,290</u>
Notional tax on profit before tax calculated, at the rates applicable to profits in the jurisdictions concerned .....	2,682,681	27,998,435	94,373,390	38,088,536	34,635,234
Tax effect of non-deductible expenses .....	2,069,601	5,095,193	15,360,997	3,239,570	2,878,564
Tax effect of non-taxable income .....	(25,029,691)	(6,636,646)	(22,118,057)	(7,450,577)	(10,047,158)
Net deferred tax liabilities not recognised (Note) .....	2,434,985	(13,076,933)	(37,994,683)	(24,642,520)	(13,067,965)
Tax effect of tax losses utilised this year .....	(3,205,131)	(8,568,088)	(40,547,691)	(7,970,582)	(18,129,527)
Tax effect of net deferred tax assets recognised .....	(102,314)	(24,397,686)	(44,592,209)	-	-
Under provision in prior years .....	-	-	1,729,752	1,729,752	56,304
Adjustments to prior years' tax losses .....	-	-	-	-	7,758,314
Tax effect of retrospective application of new/ revised HKFRSs .....	25,037,842	1,644,512	(2,193,951)	-	-
Income tax charge/(credit) .....	<u>3,887,973</u>	<u>(17,941,213)</u>	<u>(35,982,452)</u>	<u>2,994,179</u>	<u>4,083,766</u>

Note: The net deferred tax liabilities are mainly related to the taxable temporary differences. The amounts have not been recognised in the Financial Information as the tax losses carried forward exceed the related taxable temporary differences. The directors are of the opinion that it is not probable that future taxable profits against which the net deferred tax amount can be utilised will be available.

## (c) Current taxation in the balance sheets represents

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Provision for Hong Kong Profits Tax for the year .....	-	1,271,451	-	-
Balance of Profits Tax provision relating to prior years .....	3,330,007	3,330,007	4,601,458	4,601,458
	3,330,007	4,601,458	4,601,458	4,601,458
Taxation outside Hong Kong .....	2,660,659	4,039,765	4,538,725	1,539,055
	<u>5,990,666</u>	<u>8,641,223</u>	<u>9,140,183</u>	<u>6,140,513</u>
Amount of taxation payable expected to be settled after more than 1 year .....	<u>3,330,007</u>	<u>4,601,458</u>	<u>4,601,458</u>	<u>4,601,458</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 8 Income tax (continued)

## (d) Deferred tax assets recognised

Deferred tax assets arising from tax losses recognised in the Group's combined balance sheets and the movements during the year are as follows:

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
At 1 January .....	503,046	400,732	24,798,418	69,396,103
(Charged)/credited to combined income statements .....	(102,314)	24,397,686	44,592,209	–
Exchange difference .....	–	–	5,476	–
At 31 December .....	<u>400,732</u>	<u>24,798,418</u>	<u>69,396,103</u>	<u>69,396,103</u>

## (e) Deferred tax assets not recognised

At 31 December, the Group did not recognise deferred tax assets in respect of tax losses and deductible temporary differences as follows:

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Tax losses .....	1,437,568,984	1,271,662,885	794,550,929	650,464,003
Deductible temporary differences .....	<u>475,725,921</u>	<u>378,530,837</u>	<u>152,016,604</u>	<u>117,832,149</u>
	<u>1,913,294,905</u>	<u>1,650,193,722</u>	<u>946,567,533</u>	<u>768,296,152</u>

The tax losses do not expire under the current tax legislation.

## (f) Accounting estimates and judgements

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences (in accordance with the accounting policy stated in note 2(q)(iii)). As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 9 Directors' emoluments

Details of the directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	Year ended 31 December 2003				
	Directors' fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Executive directors</b>					
Peng Wei .....	–	746,958	260,000	12,000	1,018,958
Cheng Kwok Ping .....	–	969,800	300,000	134,280	1,404,080
Chan Pui Leung .....	–	616,161	195,000	85,014	896,175
Lee Wai Kun .....	–	570,050	145,000	78,930	793,980
Total .....	–	2,902,969	900,000	310,224	4,113,193
<b>Non-executive directors</b>					
Feng Xiao Zeng .....	–	–	–	–	–
Lin Fan .....	–	–	–	–	–
Wu Chi Hung .....	–	–	–	–	–
Ip Tak Chuen, Edmond .....	–	–	–	–	–
Ma Lai Chee, Gerald .....	–	–	–	–	–
Lee Yim Hong, Lawrence .....	–	–	–	–	–
Hong Kam Cheung .....	–	–	–	–	–
Yuen Shu Tong .....	–	–	–	–	–
Dong Juan .....	–	–	–	–	–
Wong Hay Chih .....	–	–	–	–	–
Yu Ziyou .....	–	–	–	–	–
Total .....	–	–	–	–	–

	Year ended 31 December 2004				
	Directors' fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Executive directors</b>					
Peng Wei .....	–	870,943	230,550	12,000	1,113,493
Cheng Kwok Ping .....	–	969,800	250,550	134,280	1,354,630
Chan Pui Leung .....	–	614,673	180,550	85,014	880,237
Lee Wai Kun .....	–	237,521	120,000	32,888	390,409
Total .....	–	2,692,937	781,650	264,182	3,738,769
<b>Non-executive directors</b>					
Feng Xiao Zeng .....	–	–	–	–	–
Lin Fan .....	–	–	–	–	–
Wu Chi Hung .....	–	–	–	–	–
Ip Tak Chuen, Edmond .....	–	–	–	–	–
Ma Lai Chee, Gerald .....	–	–	–	–	–
Lee Yim Hong, Lawrence .....	–	–	–	–	–
Hong Kam Cheung .....	–	–	–	–	–
Yuen Shu Tong .....	–	–	–	–	–
Dong Juan .....	–	–	–	–	–
Wong Hay Chih .....	–	–	–	–	–
Yu Ziyou .....	–	–	–	–	–
Total .....	–	–	–	–	–

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 9 Directors' emoluments (continued)

Year ended 31 December 2005					
Directors' fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total	
HK\$	HK\$	HK\$	HK\$	HK\$	
<b>Executive directors</b>					
Peng Wei	–	1,067,488	360,000	12,000	1,439,488
Cheng Kwok Ping	–	1,114,024	320,000	145,111	1,579,135
Chan Pui Leung	–	680,333	220,000	86,585	986,918
Lee Wai Kun	–	–	70,000	–	70,000
Total	–	2,861,845	970,000	243,696	4,075,541
<b>Non-executive directors</b>					
Feng Xiao Zeng	–	–	–	–	–
Lin Fan	–	–	–	–	–
Wu Chi Hung	–	–	–	–	–
Ip Tak Chuen, Edmond	–	–	–	–	–
Ma Lai Chee, Gerald	–	–	–	–	–
Lee Yim Hong, Lawrence	–	–	–	–	–
Hong Kam Cheung	–	–	–	–	–
Yuen Shu Tong	–	–	–	–	–
Dong Juan	–	–	–	–	–
Wong Hay Chih	–	–	–	–	–
Yu Ziyou	–	–	–	–	–
Total	–	–	–	–	–

Six months ended 30 June 2005 (unaudited)					
Directors' fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total	
HK\$	HK\$	HK\$	HK\$	HK\$	
<b>Executive directors</b>					
Peng Wei	–	522,119	360,000	6,000	888,119
Cheng Kwok Ping	–	554,108	320,000	71,611	945,719
Chan Pui Leung	–	337,432	220,000	42,507	599,939
Lee Wai Kun	–	–	18,270	–	18,270
Total	–	1,413,659	918,270	120,118	2,452,047
<b>Non-executive directors</b>					
Feng Xiao Zeng	–	–	–	–	–
Lin Fan	–	–	–	–	–
Wu Chi Hung	–	–	–	–	–
Ip Tak Chuen, Edmond	–	–	–	–	–
Ma Lai Chee, Gerald	–	–	–	–	–
Lee Yim Hong, Lawrence	–	–	–	–	–
Hong Kam Cheung	–	–	–	–	–
Yuen Shu Tong	–	–	–	–	–
Dong Juan	–	–	–	–	–
Wong Hay Chih	–	–	–	–	–
Yu Ziyou	–	–	–	–	–
Total	–	–	–	–	–

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 9 Directors' emoluments (continued)

	Six months ended 30 June 2006				
	Directors' fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Executive directors</b>					
Peng Wei	–	661,619	550,000	6,000	1,217,619
Cheng Kwok Ping	–	639,917	500,000	90,000	1,229,917
Chan Pui Leung	–	370,252	365,000	51,930	787,182
Lee Wai Kun	–	225,000	50,000	33,750	308,750
Total	–	1,896,788	1,465,000	181,680	3,543,468
<b>Non-executive directors</b>					
Feng Xiao Zeng	–	–	–	–	–
Lin Fan	–	–	–	–	–
Wu Chi Hung	–	–	–	–	–
Ip Tak Chuen, Edmond	–	–	–	–	–
Ma Lai Chee, Gerald	–	–	–	–	–
Lee Yim Hong, Lawrence	–	–	–	–	–
Hong Kam Cheung	–	–	–	–	–
Yuen Shu Tong	–	–	–	–	–
Dong Juan	–	–	–	–	–
Wong Hay Chih	–	–	–	–	–
Yu Ziyou	–	–	–	–	–
Total	–	–	–	–	–

During the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Company or as compensation for loss of office and none of the directors has waived or agreed to waive any emoluments.

## 10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two of them are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other three individuals are as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Salaries and other emoluments	2,008,211	1,986,443	1,943,962	940,115	1,008,808
Discretionary bonuses	520,000	410,850	560,000	620,000	880,000
Retirement scheme contributions	171,944	173,136	148,885	68,069	124,974
Total	2,700,155	2,570,429	2,652,847	1,628,184	2,013,782

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

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
Amounts in HK\$					
Nil – 1,000,000	2	2	3	3	3
1,000,001 – 1,500,000	1	1	–	–	–
Total	3	3	3	3	3

During the years ended 31 December 2003, 2004, 2005 and the six months ended 30 June 2005 and 2006, no emoluments were paid by the Company to any of the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office and none of the five highest paid individuals has waived or agreed to waive any emoluments.

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***11 Dividend**

No dividend has been paid or declared by the Company since its incorporation.

**12 Earnings per share**

The calculation of basic earnings per share for the Relevant Periods is based on the profit attributable to equity holders of the Group for each of the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006 and the 2,200,000,000 shares in issue as at the date of the Prospectus as if the shares were outstanding throughout the entire Relevant Periods.

There were no potential dilutive ordinary shares during the Relevant Periods. Accordingly, no diluted earnings per share are presented.

The calculation of basic earnings per share has not taken into account the shares which will or may be issued pursuant to the Public Offer.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 13 Fixed assets

	Land and buildings	Buildings	Furniture and equipment	Property and equipment sub-total	Investment properties	Interests in leasehold land held for own use under operating leases	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost or valuation:</b>							
At 1 January 2003	72,810,266	83,958,000	52,614,046	209,382,312	796,252,687	319,839,000	1,325,473,999
Additions	—	—	2,352,322	2,352,322	4,750,000	—	7,102,322
Disposals	(1,789,633)	—	(1,497,585)	(3,287,218)	(79,613,617)	—	(82,900,835)
Transfer to investment properties	(18,478,820)	—	—	(18,478,820)	10,597,770	—	(7,881,050)
Fair value adjustment	—	—	—	—	(27,530,253)	—	(27,530,253)
At 31 December 2003	<u>52,541,813</u>	<u>83,958,000</u>	<u>53,468,783</u>	<u>189,968,596</u>	<u>704,456,587</u>	<u>319,839,000</u>	<u>1,214,264,183</u>
<b>Representing:</b>							
Cost	52,541,813	83,958,000	53,468,783	189,968,596	—	319,839,000	509,807,596
Valuation — 2003	—	—	—	—	704,456,587	—	704,456,587
	<u>52,541,813</u>	<u>83,958,000</u>	<u>53,468,783</u>	<u>189,968,596</u>	<u>704,456,587</u>	<u>319,839,000</u>	<u>1,214,264,183</u>
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2003	(34,393,441)	(4,328,439)	(38,537,845)	(77,259,725)	—	(116,505,609)	(193,765,334)
Charge for the year	(1,347,947)	(1,712,462)	(4,390,462)	(7,450,871)	—	(379,677)	(7,830,548)
Impairment loss provided	(169,959)	—	—	(169,959)	—	(6,577,479)	(6,747,438)
Written back on disposals	729,387	—	1,434,093	2,163,480	—	—	2,163,480
Transfer to investment properties	7,881,050	—	—	7,881,050	—	—	7,881,050
At 31 December 2003	<u>(27,300,910)</u>	<u>(6,040,901)</u>	<u>(41,494,214)</u>	<u>(74,836,025)</u>	<u>—</u>	<u>(123,462,765)</u>	<u>(198,298,790)</u>
<b>Net book value:</b>							
At 31 December 2003	<u>25,240,903</u>	<u>77,917,099</u>	<u>11,974,569</u>	<u>115,132,571</u>	<u>704,456,587</u>	<u>196,376,235</u>	<u>1,015,965,393</u>



## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 13 Fixed assets (continued)

	Land and buildings	Buildings	Furniture and equipment	Property and equipment sub-total	Investment properties	Interests in leasehold land held for own use under operating leases	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost or valuation:</b>							
At 1 January 2004	52,541,813	83,958,000	53,468,783	189,968,596	704,456,587	319,839,000	1,214,264,183
Additions	–	–	4,071,761	4,071,761	–	–	4,071,761
Disposals	–	–	(1,877,379)	(1,877,379)	(14,000,922)	–	(15,878,301)
Fair value adjustment	–	–	–	–	52,899,145	–	52,899,145
At 31 December 2004	52,541,813	83,958,000	55,663,165	192,162,978	743,354,810	319,839,000	1,255,356,788
<b>Representing:</b>							
Cost	52,541,813	83,958,000	55,663,165	192,162,978	–	319,839,000	512,001,978
Valuation — 2004	–	–	–	–	743,354,810	–	743,354,810
	52,541,813	83,958,000	55,663,165	192,162,978	743,354,810	319,839,000	1,255,356,788
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2004	(27,300,910)	(6,040,901)	(41,494,214)	(74,836,025)	–	(123,462,765)	(198,298,790)
Charge for the year	(1,328,270)	(1,712,465)	(5,013,070)	(8,053,805)	–	(379,677)	(8,433,482)
Impairment loss reversed	2,239,629	–	–	2,239,629	–	18,158,786	20,398,415
Written back on disposals	–	–	1,860,314	1,860,314	–	–	1,860,314
At 31 December 2004	(26,389,551)	(7,753,366)	(44,646,970)	(78,789,887)	–	(105,683,656)	(184,473,543)
<b>Net book value:</b>							
At 31 December 2004	26,152,262	76,204,634	11,016,195	113,373,091	743,354,810	214,155,344	1,070,883,245

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 13 Fixed assets (continued)

	Land and buildings	Buildings	Furniture and equipment	Property and equipment sub-total	Investment properties	Interests in leasehold land held for own use under operating leases	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost or valuation:</b>							
At 1 January 2005	52,541,813	83,958,000	55,663,165	192,162,978	743,354,810	319,839,000	1,255,356,788
Exchange adjustments	525,039	–	181,588	706,627	–	–	706,627
Additions	–	–	6,018,001	6,018,001	–	–	6,018,001
Disposals	–	–	(2,087,589)	(2,087,589)	(1,180,000)	–	(3,267,589)
Transfer to investment properties	–	(1,824,000)	–	(1,824,000)	5,366,707	(7,013,000)	(3,470,293)
Fair value adjustment	–	–	–	–	181,896,112	–	181,896,112
At 31 December 2005	53,066,852	82,134,000	59,775,165	194,976,017	929,437,629	312,826,000	1,437,239,646
<b>Representing:</b>							
Cost	53,066,852	82,134,000	59,775,165	194,976,017	–	312,826,000	507,802,017
Valuation — 2005	–	–	–	–	929,437,629	–	929,437,629
	53,066,852	82,134,000	59,775,165	194,976,017	929,437,629	312,826,000	1,437,239,646
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2005	(26,389,551)	(7,753,366)	(44,646,970)	(78,789,887)	–	(105,683,656)	(184,473,543)
Exchange adjustments	(419,628)	–	(124,687)	(544,315)	–	–	(544,315)
Charge for the year	(1,347,791)	(1,712,463)	(4,698,512)	(7,758,766)	–	(379,678)	(8,138,444)
Impairment loss reversed	2,556,101	–	–	2,556,101	–	22,341,006	24,897,107
Written back on disposals	–	–	2,030,823	2,030,823	–	–	2,030,823
Transfer to investment properties	–	237,120	–	237,120	–	3,233,173	3,470,293
At 31 December 2005	(25,600,869)	(9,228,709)	(47,439,346)	(82,268,924)	–	(80,489,155)	(162,758,079)
<b>Net book value:</b>							
At 31 December 2005	27,465,983	72,905,291	12,335,819	112,707,093	929,437,629	232,336,845	1,274,481,567

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 13 Fixed assets (continued)

	Land and buildings	Buildings	Furniture and equipment	Property and equipment sub-total	Investment properties	Interests in leasehold land held for own use under operating leases	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>Cost or valuation:</b>							
At 1 January 2006	53,066,852	82,134,000	59,775,165	194,976,017	929,437,629	312,826,000	1,437,239,646
Additions	–	–	1,102,348	1,102,348	–	–	1,102,348
Disposals	–	–	(1,169,722)	(1,169,722)	–	–	(1,169,722)
Fair value adjustment	–	–	–	–	19,252,371	–	19,252,371
At 30 June 2006	53,066,852	82,134,000	59,707,791	194,908,643	948,690,000	312,826,000	1,456,424,643
<b>Representing:</b>							
Cost	53,066,852	82,134,000	59,707,791	194,908,643	–	312,826,000	507,734,643
Valuation — 2006	–	–	–	–	948,690,000	–	948,690,000
	53,066,852	82,134,000	59,707,791	194,908,643	948,690,000	312,826,000	1,456,424,643
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2006	(25,600,869)	(9,228,709)	(47,439,346)	(82,268,924)	–	(80,489,155)	(162,758,079)
Charge for the period	(707,347)	(828,468)	(1,905,467)	(3,441,282)	–	(138,875)	(3,580,157)
Impairment loss reversed/ (provided)	1,901,801	–	–	1,901,801	–	(4,858,224)	(2,956,423)
Written back on disposals	–	–	1,136,383	1,136,383	–	–	1,136,383
At 30 June 2006	(24,406,415)	(10,057,177)	(48,208,430)	(82,672,022)	–	(85,486,254)	(168,158,276)
<b>Net book value:</b>							
At 30 June 2006	28,660,437	72,076,823	11,499,361	112,236,621	948,690,000	227,339,746	1,288,266,367

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

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
<b>In Hong Kong</b>				
– long leases	942,586,671	1,000,667,738	1,190,695,883	1,201,616,375
– medium-term leases	48,270,707	53,341,824	66,402,943	69,123,543
<b>Outside Hong Kong</b>				
– long leases	–	–	–	–
– medium-term leases	13,133,446	5,857,488	5,046,922	6,027,088
	1,003,990,824	1,059,867,050	1,262,145,748	1,276,767,006
<b>Representing:</b>				
Land and buildings carried at cost	25,240,903	26,152,262	27,465,983	28,660,437
Buildings carried at cost	77,917,099	76,204,634	72,905,291	72,076,823
Investment properties carried at fair value	704,456,587	743,354,810	929,437,629	948,690,000
Interests in leasehold land held for own use under operating leases carried at cost	196,376,235	214,155,344	232,336,845	227,339,746
	1,003,990,824	1,059,867,050	1,262,145,748	1,276,767,006

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 13 Fixed assets (continued)

(b) Investment properties of the Group were revalued by an independent firm of surveyors, FPD Savills (Hong Kong) Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The revaluation (deficit)/surplus of HK\$(27,530,253), HK\$52,899,145, HK\$181,896,112 and HK\$19,252,371 have been (debited)/credited to the combined income statements of the Group for the years ended 31 December 2003, 2004 and 2005 and six months ended 30 June 2006 respectively.

(c) The directors conducted a review of the Group's land and buildings and leasehold land held for own use under operating leases with reference to the valuation of an independent firm of surveyors, FPD Savills (Hong Kong) Limited, and determined the impairment of certain land and buildings and leasehold land held for own use under operating leases. Accordingly, reversals of impairment losses of HK\$20,398,415 and HK\$24,897,107 have been credited to the combined income statements of the Group for the years ended 31 December 2004 and 2005 respectively and impairment losses of HK\$6,747,438 and HK\$2,956,423 have been charged to the combined income statements for the year ended 31 December 2003 and six months ended 30 June 2006 respectively.

(d) The Group leased out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases after that date at which time all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

All of the investment properties of the Group were held for use in operating leases.

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

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Within 1 year .....	26,653,631	22,803,516	29,773,266	31,644,279
After 1 year but within 5 years .....	15,643,653	18,160,284	24,432,130	27,794,193
	<u>42,297,284</u>	<u>40,963,800</u>	<u>54,205,396</u>	<u>59,438,472</u>

## 14 Interests in subsidiaries

All of the companies listed below are controlled subsidiaries as defined under note 2(d) and have been consolidated into the Group's Financial Information. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
Canon Limited	Hong Kong 22 October 1999	1,000,000 ordinary shares of HK\$1 each	–	100%	Property investment
Charter Firm Limited	Hong Kong 22 October 1999	1,000,000 ordinary shares of HK\$1 each	–	100%	Property investment
Chellink Investment Limited ("Chellink")	Hong Kong 19 September 1991	10,000 ordinary shares of HK\$1 each	–	100%	Property investment
China Insurance Group Realty Company Limited	Hong Kong 21 June 1994	10,000,000 ordinary shares of HK\$1 each	–	100%	Property investment
Equity Survey Claim Service Company Limited	Hong Kong 24 October 1995	1,000,000 ordinary shares of HK\$1 each	–	100%	Provision of insurance claim survey services
Ever Sino Development Limited (note (a))	Hong Kong 18 May 1995	2 ordinary shares of HK\$1 each	–	100%	Investment holding

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 14 Interests in subsidiaries (continued)

Name of company	Place and date of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by a subsidiary	
Jacton Limited	Hong Kong 22 October 1999	1,000,000 ordinary shares of HK\$1 each	–	100%	Property investment
Joyful Box Inc.	The British Virgin Islands/ Hong Kong 5 July 2000	1 ordinary share of US\$1 each	–	100%	Holding of securities
King System Limited	The British Virgin Islands/ Hong Kong 5 July 2000	1 ordinary share of US\$1 each	–	100%	Holding of securities
Main Super Limited (note (a))	Hong Kong 28 December 1993	10,000 ordinary shares of HK\$1 each	–	100%	Holding of a vessel for hiring
Ming An (Overseas) Inc.	The Republic of Panama/ Hong Kong 1 May 2003	100 ordinary shares of US\$4,000 each	–	100%	Investment holding and provision of management services
Onah Investments Limited (“Onah”)	Hong Kong 13 August 1991	10,000 ordinary shares of HK\$1 each	–	100%	Property investment
Orient Sino Development Limited	Hong Kong 6 February 1996	2 ordinary shares of HK\$1 each	–	100%	Provision of property agency services to group companies
Richtex Investment Limited (“Richtex”) (note (b))	Hong Kong 15 August 1991	10,000 ordinary shares of HK\$1 each	–	100%	Property investment
Sermax Investments Limited (“Sermax”) (note (b))	Hong Kong 20 April 1995	2 ordinary shares of HK\$1 each	–	100%	Holding of securities
The Ming An Insurance Company (China), Limited (note (c))	The PRC 10 January 2005	Registered capital of RMB300,000,000	–	100%	General insurance business
The Ming An Insurance Company (Hong Kong), Limited	Hong Kong 29 September 1949	11,360,000 ordinary shares of HK\$100 each  2,000,000 deferred shares of HK\$100 each	100%	–	General insurance business and investment holding
The Tai Ping Underwriters (Hong Kong) Limited (note (d))	Hong Kong 8 December 1950	1,000 ordinary shares of HK\$100 each	–	100%	Inactive
Victory Max Limited	Hong Kong 11 August 1999	1,000,000 ordinary shares of HK\$1 each	–	100%	Property investment

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 14 Interests in subsidiaries (continued)

Notes:

- (a) Ever Sino Development Limited and Main Super Limited were put into members' voluntary liquidation on 10 October 2004 and 23 August 2004 respectively.
- (b) The entire shareholding of Richtex and Sermax, the wholly owned subsidiaries of the Group, were disposed of to a fellow subsidiary of the Company on 30 May 2006 (see notes 33(b)(iv), 33(b)(v) and 33(b)(vi)).
- (c) Ming An China was formerly a branch of Ming An Hong Kong. On 24 May 2004, the China Insurance Regulatory Commission ("CIRC") approved the restructuring of the branch to become a wholly owned subsidiary of the Group. Ming An China obtained the business licence on 10 January 2005. By an agreement signed between Ming An Hong Kong and Ming An China dated 10 January 2005, the undertakings, liabilities, rights, obligations, assets and associated duties in relation to the branch's business on or before that date were transferred to Ming An China at the net asset value as of that date.

	<u>HK\$</u>
Net assets transferred	
Statutory deposits .....	31,080,000
Property and equipment .....	8,222,011
Insurance receivables .....	35,482,128
Other receivables .....	2,140,750
Deferred tax assets .....	298,418
Cash and cash equivalents .....	294,883,870
Insurance funds .....	(82,077,036)
Insurance protection fund .....	(3,937,822)
Insurance payables .....	(56,537,271)
Amount due to the Company .....	(22,608,810)
Other payables .....	(1,415,343)
Current taxation .....	(5,530,895)
	<u>200,000,000</u>

By a resolution of the board of directors on 14 November 2005 and 24 August 2006, a further HK\$100 million and HK\$200 million was injected into Ming An China as share capital in the form of cash and cash equivalents on 6 December 2005 and 26 September 2006 respectively.

- (d) On 24 March 2006, the Group acquired the minority interest of 1% in The Tai Ping Underwriters (Hong Kong) Limited which then became a wholly owned subsidiary of the Group.
- (e) No dividend has been paid or declared by the subsidiaries of the Company during the years ended 31 December 2003, 2004 and 2005 except for Ming An Overseas Inc. which declared dividend of HK\$3,108,000, HK\$777,000 and HK\$776,165 to Ming An Hong Kong, its immediate holding company, for the years ended 31 December 2003, 2004 and 2005.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 15 Interests in associates

	31 December			30 June
	2003 HK\$	2004 HK\$	2005 HK\$	2006 HK\$
Share of net assets .....	8,733,085	8,294,695	10,319,347	5,723,204
Loan to an associate .....	9,660,000	9,660,000	9,660,000	–
	<u>18,393,085</u>	<u>17,954,695</u>	<u>19,979,347</u>	<u>5,723,204</u>

(a) Loan to an associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amount will be repayable after more than one year.

(b) The Group had interests in the following unlisted associates:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
				Group's effective interest	Held by a subsidiary	
CJM Insurance Brokers Limited	Incorporated	Hong Kong	6,000,000 ordinary shares of HK\$1 each	33.33%	33.33%	Insurance broker
Sanlink Investments Limited ("Sanlink") (note)	Incorporated	Hong Kong	300,000 ordinary shares of HK\$1 each	30%	30%	Holding of securities

Note: On 19 May 2006, the Group disposed of its 30% interests in Sanlink to a fellow subsidiary of the Group (see note 33(b)(vii)).

## (c) Summary financial information on associates

	Assets HK\$	Liabilities HK\$	Equity HK\$	Revenues HK\$	Profits HK\$
<b>31 December 2003</b>					
100 per cent .....	85,273,521	58,255,492	27,018,029	11,234,864	4,924,764
Group's effective interest .....	<u>27,084,834</u>	<u>18,351,749</u>	<u>8,733,085</u>	<u>3,615,887</u>	<u>1,513,249</u>
<b>31 December 2004</b>					
100 per cent .....	97,649,641	71,996,077	25,653,564	13,680,292	5,295,413
Group's effective interest .....	<u>31,227,360</u>	<u>22,932,665</u>	<u>8,294,695</u>	<u>4,431,030</u>	<u>1,636,642</u>
<b>31 December 2005</b>					
100 per cent .....	105,636,298	73,231,177	32,405,121	12,228,382	3,819,244
Group's effective interest .....	<u>33,662,702</u>	<u>23,343,355</u>	<u>10,319,347</u>	<u>3,995,457</u>	<u>1,192,977</u>
<b>30 June 2006</b>					
100 per cent .....	51,813,641	34,644,030	17,169,611	10,007,696	2,235,261
Group's effective interest .....	<u>17,271,214</u>	<u>11,548,010</u>	<u>5,723,204</u>	<u>3,335,899</u>	<u>745,087</u>

There were no unrecognised share of losses of associates for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006 respectively.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 16 Statutory deposits

A subsidiary and the branches of the Group located in the PRC have placed HK\$35,580,000, HK\$58,656,888, HK\$58,540,501 and HK\$70,298,216 for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 with banks respectively as capital guarantee funds.

Pursuant to Article 79 of the PRC Insurance Law (Revised), an insurance company shall deposit 20% of its registered capital into a bank designated by the CIRC as a capital guarantee fund. This fund shall not be used for any purpose other than to pay off debts during liquidation proceedings.

## 17 Investments in securities

	Available-for-sale securities			
	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Fixed interest securities				
– Government: Listed	–	–	–	–
– Others: Listed	–	–	–	–
	–	–	–	–
Variable interest securities				
– Others: Unlisted	–	–	–	–
Equity securities				
– Listed	297,786,000	282,286,000	252,691,500	373,346,000
– Unlisted	73,480,897	61,431,921	38,620,450	2,269,668
	371,266,897	343,717,921	291,311,950	375,615,668
Other				
– Unlisted	468,700	468,700	492,100	492,100
Total	371,735,597	344,186,621	291,804,050	376,107,768
<b>Representing:</b>				
Listed				
– Hong Kong	297,786,000	282,286,000	252,691,500	373,346,000
– Overseas	–	–	–	–
Unlisted	73,949,597	61,900,621	39,112,550	2,761,768
	371,735,597	344,186,621	291,804,050	376,107,768
Market value of listed securities	297,786,000	282,286,000	252,691,500	373,346,000



## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 17 Investments in securities (continued)

	Securities held for trading			
	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Fixed interest securities				
– Government: Listed .....	–	11,524,907	28,611,266	27,492,395
– Others: Listed .....	20,868,626	134,025,660	103,126,003	92,197,036
	<u>20,868,626</u>	<u>145,550,567</u>	<u>131,737,269</u>	<u>119,689,431</u>
Variable interest securities				
– Others: Unlisted .....	8,017,863	7,754,460	7,709,882	–
Equity securities				
– Listed .....	31,211,596	37,655,979	21,657,256	35,945,251
– Unlisted .....	–	–	–	–
	<u>31,211,596</u>	<u>37,655,979</u>	<u>21,657,256</u>	<u>35,945,251</u>
Other				
– Unlisted .....	–	–	–	–
<b>Total</b> .....	<u><u>60,098,085</u></u>	<u><u>190,961,006</u></u>	<u><u>161,104,407</u></u>	<u><u>155,634,682</u></u>
<b>Representing:</b>				
Listed				
– Hong Kong .....	30,422,941	36,436,546	21,452,171	35,945,251
– Overseas .....	21,657,281	146,770,000	131,942,354	119,689,431
Unlisted .....	8,017,863	7,754,460	7,709,882	–
	<u>60,098,085</u>	<u>190,961,006</u>	<u>161,104,407</u>	<u>155,634,682</u>
Market value of listed securities .....	<u>52,080,222</u>	<u>183,206,546</u>	<u>153,394,525</u>	<u>155,634,682</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 17 Investments in securities (continued)

	Total			
	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Fixed interest securities				
– Government: Listed .....	–	11,524,907	28,611,266	27,492,395
– Others: Listed .....	20,868,626	134,025,660	103,126,003	92,197,036
	<u>20,868,626</u>	<u>145,550,567</u>	<u>131,737,269</u>	<u>119,689,431</u>
Variable interest securities				
– Others: Unlisted .....	8,017,863	7,754,460	7,709,882	–
Equity securities				
– Listed .....	328,997,596	319,941,979	274,348,756	409,291,251
– Unlisted .....	73,480,897	61,431,921	38,620,450	2,269,668
	<u>402,478,493</u>	<u>381,373,900</u>	<u>312,969,206</u>	<u>411,560,919</u>
Other				
– Unlisted .....	468,700	468,700	492,100	492,100
<b>Total</b> .....	<u>431,833,682</u>	<u>535,147,627</u>	<u>452,908,457</u>	<u>531,742,450</u>
<b>Representing:</b>				
Listed				
– Hong Kong .....	328,208,941	318,722,546	274,143,671	409,291,251
– Overseas .....	21,657,281	146,770,000	131,942,354	119,689,431
Unlisted .....	81,967,460	69,655,081	46,822,432	2,761,768
	<u>431,833,682</u>	<u>535,147,627</u>	<u>452,908,457</u>	<u>531,742,450</u>
Market value of listed securities .....	<u>349,866,222</u>	<u>465,492,546</u>	<u>406,086,025</u>	<u>528,980,682</u>

*Accounting estimates and judgements*

The Group follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial asset is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Group will hold on to this investment.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 18 Insurance receivables

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Premiums receivable under direct business .....	220,825,909	206,679,917	196,003,860	290,353,096
Amounts due under reinsurance contracts .....	1,162,954,190	1,077,456,929	958,727,549	52,832,859
	1,383,780,099	1,284,136,846	1,154,731,409	343,185,955
Deposits retained by cedants .....	110,338,182	71,290,575	221,315	179,965
	1,494,118,281	1,355,427,421	1,154,952,724	343,365,920
Amounts expected to be settled within 1 year				
– Premiums receivable under direct business .....	202,943,389	185,390,054	184,222,187	263,330,453
– Amounts due under reinsurance contracts .....	250,676,128	214,162,805	222,471,022	45,445,142
	453,619,517	399,552,859	406,693,209	308,775,595

Included in the amounts due under reinsurance contracts are the amount due from China Reinsurance (Group) Company of HK\$1,021,859,652, HK\$971,634,635 and HK\$885,530,116 for the years ended 31 December 2003, 2004 and 2005 respectively. The amounts were included in the ageing analysis under the category of more than 3 months overdue but less than 12 months overdue and over 1 year overdue. In the opinion of the directors, HK\$50,225,006, HK\$47,756,417, HK\$200,000,000 for the years ended 31 December 2003, 2004 and 2005 respectively of the balance is expected to be settled within one year. The balance of HK\$885,530,116 has been settled on 30 June 2006 (see note 33(b)(xii)).

An ageing analysis of the insurance receivables excluding deposits retained from reinsurers (net of impairment losses for bad and doubtful debts) is analysed as follows:

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Current .....	321,205,276	243,281,010	172,978,476	313,398,100
1 to 3 months overdue .....	18,734,308	22,263,689	9,241,112	18,684,207
More than 3 months overdue but less than				
12 months overdue .....	127,840,881	5,007,173	6,848,132	7,727,179
Over 1 year overdue .....	915,999,634	1,013,584,974	965,663,689	3,376,469
	1,383,780,099	1,284,136,846	1,154,731,409	343,185,955

The Group normally allows a credit period ranging from 0–90 days for premium receivables under direct business and 50 days to 90 days for the amounts due from reinsurance contracts after the quarterly statements have been sent (see note 31(b)(ii)).

## 19 Other receivables

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Deposits .....	6,586,654	5,976,938	5,834,411	5,755,361
Prepayments .....	561,002	808,285	816,461	7,973,767
Other receivables .....	17,317,299	17,322,894	23,453,083	22,586,282
	24,464,955	24,108,117	30,103,955	36,315,410
Amounts expected to be settled within 1 year .....	10,378,302	12,331,180	19,200,376	25,195,957

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 20 Insurance funds

	Claims incurred but not reported	Provision for reported claims	Sub-total	Provision for unearned premiums	Provision for unexpired risks	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>At 1 January 2003</b>						
Gross insurance funds .....	1,033,643,646	3,115,454,154	4,149,097,800	901,448,016	–	5,050,545,816
Movements in 2003 .....	(64,968,342)	(366,714,278)	(431,682,620)	(305,660,241)	–	(737,342,861)
<b>At 31 December 2003</b>						
Gross insurance funds .....	968,675,304	2,748,739,876	3,717,415,180	595,787,775	–	4,313,202,955
Reinsurers' share .....	(409,391,774)	(1,242,958,426)	(1,652,350,200)	(212,575,479)	21,500,000	(1,843,425,679)
Net insurance funds .....	<u>559,283,530</u>	<u>1,505,781,450</u>	<u>2,065,064,980</u>	<u>383,212,296</u>	<u>21,500,000</u>	<u>2,469,777,276</u>
Current (gross) .....	220,174,558	624,773,424	844,947,982	576,803,455	–	1,421,751,437
Non-current (gross) .....	748,500,746	2,123,966,452	2,872,467,198	18,984,320	–	2,891,451,518
Current (net) .....	155,981,875	419,956,251	575,938,126	373,501,804	20,955,196	970,395,126
Non-current (net) .....	<u>403,301,655</u>	<u>1,085,825,199</u>	<u>1,489,126,854</u>	<u>9,710,492</u>	<u>544,804</u>	<u>1,499,382,150</u>
<b>At 1 January 2004</b>						
Gross insurance funds .....	968,675,304	2,748,739,876	3,717,415,180	595,787,775	–	4,313,202,955
Movements in 2004 .....	(172,485,057)	(421,944,862)	(594,429,919)	(55,061,803)	–	(649,491,722)
<b>At 31 December 2004</b>						
Gross insurance funds .....	796,190,247	2,326,795,014	3,122,985,261	540,725,972	–	3,663,711,233
Reinsurers' share .....	(224,243,934)	(1,007,970,494)	(1,232,214,428)	(175,902,833)	6,500,000	(1,401,617,261)
Net insurance funds .....	<u>571,946,313</u>	<u>1,318,824,520</u>	<u>1,890,770,833</u>	<u>364,823,139</u>	<u>6,500,000</u>	<u>2,262,093,972</u>
Current (gross) .....	242,321,945	708,164,280	950,486,225	526,844,957	–	1,477,331,182
Non-current (gross) .....	553,868,302	1,618,630,734	2,172,499,036	13,881,015	–	2,186,380,051
Current (net) .....	159,513,473	367,814,732	527,328,205	356,737,348	6,355,937	890,421,490
Non-current (net) .....	<u>412,432,840</u>	<u>951,009,788</u>	<u>1,363,442,628</u>	<u>8,085,791</u>	<u>144,063</u>	<u>1,371,672,482</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 20 Insurance funds (continued)

	Claims incurred but not reported	Provision for reported claims	Sub-total	Provision for unearned premiums	Provision for unexpired risks	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>At 1 January 2005</b>						
Gross insurance funds .....	796,190,247	2,326,795,014	3,122,985,261	540,725,972	–	3,663,711,233
Movements in 2005 .....	<u>(54,472,881)</u>	<u>(351,559,629)</u>	<u>(406,032,510)</u>	<u>(73,680,847)</u>	<u>7,648,800</u>	<u>(472,064,557)</u>
<b>At 31 December 2005</b>						
Gross insurance funds .....	741,717,366	1,975,235,385	2,716,952,751	467,045,125	7,648,800	3,191,646,676
Reinsurers' share .....	<u>(287,321,595)</u>	<u>(859,250,521)</u>	<u>(1,146,572,116)</u>	<u>(121,112,358)</u>	<u>10,851,200</u>	<u>(1,256,833,274)</u>
Net insurance funds .....	<u>454,395,771</u>	<u>1,115,984,864</u>	<u>1,570,380,635</u>	<u>345,932,767</u>	<u>18,500,000</u>	<u>1,934,813,402</u>
Current (gross) .....	218,554,398	582,022,751	800,577,149	406,804,112	7,326,815	1,214,708,076
Non-current (gross) .....	<u>523,162,968</u>	<u>1,393,212,634</u>	<u>1,916,375,602</u>	<u>60,241,013</u>	<u>321,985</u>	<u>1,976,938,600</u>
Current (net) .....	136,439,840	336,454,796	472,894,636	296,409,056	18,034,185	787,337,877
Non-current (net) .....	<u>317,955,931</u>	<u>779,530,068</u>	<u>1,097,485,999</u>	<u>49,523,711</u>	<u>465,815</u>	<u>1,147,475,525</u>
<b>At 1 January 2006</b>						
Gross insurance funds .....	741,717,366	1,975,235,385	2,716,952,751	467,045,125	7,648,800	3,191,646,676
Movements in 2006 .....	<u>(17,532,048)</u>	<u>(153,854,419)</u>	<u>(171,386,467)</u>	<u>48,022,754</u>	<u>(2,381,800)</u>	<u>(125,745,513)</u>
<b>At 30 June 2006</b>						
Gross insurance funds .....	724,185,318	1,821,380,966	2,545,566,284	515,067,879	5,267,000	3,065,901,163
Reinsurers' share .....	<u>(350,064,754)</u>	<u>(782,811,804)</u>	<u>(1,132,876,558)</u>	<u>(155,360,024)</u>	<u>3,726,000</u>	<u>(1,284,510,582)</u>
Net insurance funds .....	<u>374,120,564</u>	<u>1,038,569,162</u>	<u>1,412,689,726</u>	<u>359,707,855</u>	<u>8,993,000</u>	<u>1,781,390,581</u>
Current (gross) .....	119,987,815	301,778,453	421,766,268	455,118,780	4,653,970	881,539,018
Non-current (gross) .....	<u>604,197,503</u>	<u>1,519,602,513</u>	<u>2,123,800,016</u>	<u>59,949,099</u>	<u>613,030</u>	<u>2,184,362,145</u>
Current (net) .....	57,997,416	161,002,454	218,999,870	308,740,967	7,718,785	535,459,622
Non-current (net) .....	<u>316,123,148</u>	<u>877,566,708</u>	<u>1,193,689,856</u>	<u>50,966,888</u>	<u>1,274,215</u>	<u>1,245,930,959</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 20 Insurance funds (continued)

## (i) Analysis of movements in provision for outstanding claims

	31 December 2003		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	4,149,097,800	(1,837,569,411)	2,311,528,389
Claims arising in current year	654,328,237	(265,731,960)	388,596,277
Change in claims arising in prior years	111,248,809	(56,398,379)	54,850,430
Settlement of claims arising in current year	(130,896,847)	50,363,438	(80,533,409)
Settlement of claims arising in prior years	(1,066,362,819)	456,986,112	(609,376,707)
At 31 December	3,717,415,180	(1,652,350,200)	2,065,064,980
	31 December 2004		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	3,717,415,180	(1,652,350,200)	2,065,064,980
Claims arising in current year	648,774,052	(238,769,859)	410,004,193
Change in claims arising in prior years	(304,701,078)	262,947,197	(41,753,881)
Settlement of claims arising in current year	(93,554,911)	30,429,548	(63,125,363)
Settlement of claims arising in prior years	(844,947,982)	365,528,886	(479,419,096)
At 31 December	3,122,985,261	(1,232,214,428)	1,890,770,833
	31 December 2005		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	3,122,985,261	(1,232,214,428)	1,890,770,833
Claims arising in current year	637,472,864	(225,559,438)	411,913,426
Change in claims arising in prior years	(237,343,605)	(21,708,916)	(259,052,521)
Settlement of claims arising in current year	(117,935,089)	44,825,509	(73,109,580)
Settlement of claims arising in prior years	(688,226,680)	288,085,157	(400,141,523)
At 31 December	2,716,952,751	(1,146,572,116)	1,570,380,635
	30 June 2006		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	2,716,952,751	(1,146,572,116)	1,570,380,635
Claims arising in current period	401,924,510	(53,788,866)	348,135,644
Change in claims arising in prior years	(183,012,327)	(108,383,294)	(291,395,621)
Settlement of claims arising in current period	(27,647,237)	4,989,884	(22,657,353)
Settlement of claims arising in prior years	(362,651,413)	170,877,834	(191,773,579)
At 30 June	2,545,566,284	(1,132,876,558)	1,412,689,726

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 20 Insurance funds (continued)

## (ii) Analysis of movements in provision for unearned premiums

	31 December 2003		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	901,448,016	(432,585,411)	468,862,605
Premiums written/(ceded) during the year	1,173,057,469	(519,634,566)	653,422,903
Premiums earned during the year	(1,478,717,710)	739,644,498	(739,073,212)
At 31 December	<u>595,787,775</u>	<u>(212,575,479)</u>	<u>383,212,296</u>
	31 December 2004		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	595,787,775	(212,575,479)	383,212,296
Premiums written/(ceded) during the year	1,132,661,602	(475,307,444)	657,354,158
Premiums earned during the year	(1,187,723,405)	511,980,090	(675,743,315)
At 31 December	<u>540,725,972</u>	<u>(175,902,833)</u>	<u>364,823,139</u>
	31 December 2005		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	540,725,972	(175,902,833)	364,823,139
Premiums written/(ceded) during the year	1,099,506,970	(412,340,069)	687,166,901
Premiums earned during the year	(1,173,187,817)	467,130,544	(706,057,273)
At 31 December	<u>467,045,125</u>	<u>(121,112,358)</u>	<u>345,932,767</u>
	30 June 2006		
	Gross	Reinsurance	Net
	HK\$	HK\$	HK\$
At 1 January	467,045,125	(121,112,358)	345,932,767
Premiums written/(ceded) during the period	568,720,727	(237,359,476)	331,361,251
Premiums earned during the period	(520,697,973)	203,111,810	(317,586,163)
At 30 June	<u>515,067,879</u>	<u>(155,360,024)</u>	<u>359,707,855</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 20 Insurance funds (continued)

## (iii) Analysis of movements in provision for unexpired risks

	<b>31 December 2003</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January .....	–	21,500,000	21,500,000
New provision established during the year .....	–	–	–
Released to the combined revenue accounts .....	–	–	–
At 31 December .....	<u>–</u>	<u>21,500,000</u>	<u>21,500,000</u>
	<b>31 December 2004</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January .....	–	21,500,000	21,500,000
New provision established during the year .....	–	–	–
Released to the combined revenue accounts .....	–	(15,000,000)	(15,000,000)
At 31 December .....	<u>–</u>	<u>6,500,000</u>	<u>6,500,000</u>
	<b>31 December 2005</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January .....	–	6,500,000	6,500,000
New provision established during the year .....	7,648,800	4,351,200	12,000,000
Released to the combined revenue accounts .....	–	–	–
At 31 December .....	<u>7,648,800</u>	<u>10,851,200</u>	<u>18,500,000</u>
	<b>30 June 2006</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January .....	7,648,800	10,851,200	18,500,000
New provision established during the period .....	–	–	–
Released to the combined revenue accounts .....	(2,381,800)	(7,125,200)	(9,507,000)
At 30 June .....	<u>5,267,000</u>	<u>3,726,000</u>	<u>8,993,000</u>



**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****20 Insurance funds (continued)****(iv) Process used to determine the assumptions**

Each notified claim is assessed on a separate case by case basis. A claim reserving manual is maintained for each major class of insurance. The estimation of the reserve of a reported claim is made by an experienced claim handler based on the relevant claim reserving manual and the information and the claim amount submitted by the claimant and is checked by the supervisor of the responsible claim handler before updating the information into the claims system. The amount of a case reserve is reviewed and revised regularly to reflect the latest development of the claim and the change of the external environment.

Provision for claims incurred but not reported is estimated using a range of statistical methods such as the paid and incurred loss development methods and the BF method.

Provision for unearned premiums are the portion of written premiums relating to the period of risk after the balance sheet date which is deferred to subsequent accounting periods. Unearned premium reserve is calculated using the 1/365th method.

Provision for unexpired risks represents the excess of the estimated value of claims and claims handling costs likely to arise after the balance sheet date from contracts concluded before that date over and above the unearned premiums relating to those contracts. The provision for unexpired risks is assessed separately for each class of insurance. The provision for unexpired risks is made in the Financial Information when the sum of the ultimate loss and claim expense ratios exceeds 100%.

**(v) Assumptions, methodologies and sensitivities**

A comprehensive annual loss and premium reserve review is conducted at the end of each year. These reviews are conducted for each class for the Group. The reserve analysis for each business class is performed by the internal and qualified external actuarial personnel. In completing these actuarial reserve analyses, the actuarial personnel is required to make numerous assumptions. Key assumptions used in estimating claims liabilities are as follows:

- The past claims development experience can be used to project future claims development and hence the ultimate claims costs.
- There are no significant changes in the legal, social or economic environment that may affect the cost, frequency or future reporting of claims.

During the Relevant Periods, there were no significant changes in the key assumptions used by the Group in estimating insurance funds.

The Group's approach to the estimation of claims liabilities is relied on the paid and incurred loss development methods, supplemented by the BF method. The incurred and paid loss development methods are methods that use historical patterns of claim emergence to project future emergence of losses. The BF method relies on a gradual transition from an expected loss ratio to an experience-related development approach. The BF method is applied to the more recent underwriting years. The ultimate loss ratio (the estimated undiscounted ultimate losses divided by the earned premiums) for each class is determined by using the methods mentioned above.

In the estimation of the net premium liabilities, the Group has made reference to the projected ultimate loss ratios and the expected claims handling costs ratios. The projected ultimate loss ratios are applied to the Group's actual unearned premiums to estimate the ultimate losses for the unexpired risks. The commission expenses are not included in the premium liabilities since no deferred acquisition costs are recognised in the Relevant Periods. The sum of the best estimate of the ultimate losses and claims handling costs is the Group's best estimate of the premium liabilities. In the case that the best estimate of the premium liability of a class is greater than its unearned premiums which is determined by using the 1/365th method, a provision for unexpired risks is provided for in the Financial Information.

Due to the potential variability of the assumptions used, the actual emergence of losses vary in the estimate of losses included in the Group's Financial Information, particularly when settlements may not occur until well into the future (i.e. long-tail businesses). Long tail classes written by the Group mainly include employees' compensation ("EC") and motor insurance.

For these two types of business written in Hong Kong, the Group has assessed the impact of a hypothetical 1% increase or decrease in the ultimate loss ratios on the Group's profit before tax and management is of the opinion that the impact would not be material.

**21 Amounts due from/to fellow subsidiaries and the immediate holding company**

The amounts are unsecured, interest-free and have no fixed terms of repayment.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 22 Cash and cash equivalents

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Deposits with banks and other financial institutions				
with original maturity less than 3 months	557,901,736	326,861,580	524,562,097	1,491,277,438
Cash at bank and in hand	231,290,072	298,594,596	289,981,101	252,871,946
Cash and cash equivalents	<u>789,191,808</u>	<u>625,456,176</u>	<u>814,543,198</u>	<u>1,744,149,384</u>

## 23 Insurance protection fund

The insurance protection fund is provided for at 1% of the net written premiums of property, personal accident and short term health policies issued by a subsidiary and a branch of the Group established in the PRC in accordance with Article 97 of the PRC Insurance Law (Revised).

Pursuant to the new regulation (CIRC [2005] No. 26) issued by the CIRC on 10 March 2005, the insurance protection fund should be deposited in a CIRC designated bank account. No further provision is required once the accumulated balance has reached 6% of the total assets as at 31 December 2005 and 30 June 2006 of the respective entity.

The insurance protection fund is expected to be settled within one year.

## 24 Insurance payables

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Amounts due under direct business	127,136,693	127,781,664	124,605,484	134,519,976
Amounts due under reinsurance contracts accepted	10,180,005	2,298,547	2,181,309	1,224,578
Amounts due under reinsurance contracts ceded	115,214,804	131,082,585	133,735,364	159,658,484
	252,531,502	261,162,796	260,522,157	295,403,038
Deposits retained from reinsurers	243,849,634	224,246,916	149,282,517	101,841,507
	<u>496,381,136</u>	<u>485,409,712</u>	<u>409,804,674</u>	<u>397,244,545</u>
Amounts expected to be settled within 1 year:				
– Amounts due under direct business	99,166,958	89,142,176	114,894,891	113,933,749
– Amounts due under reinsurance contracts accepted	8,349,656	1,868,847	1,525,850	384,898
– Amounts due under reinsurance contracts ceded	78,397,008	96,756,699	48,609,018	83,478,942
	<u>185,913,622</u>	<u>187,767,722</u>	<u>165,029,759</u>	<u>197,797,589</u>

An ageing analysis of the insurance payables excluding deposits retained from reinsurers is analysed as follows:

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Current or on demand	157,996,819	204,934,871	218,332,839	251,813,426
1 to 3 months overdue	47,707,597	3,151,045	7,317,882	10,055,422
More than 3 months overdue but less than				
12 months overdue	16,407,804	5,238,116	5,903,741	5,989,828
Over 1 year overdue	30,419,282	47,838,764	28,967,695	27,544,362
	<u>252,531,502</u>	<u>261,162,796</u>	<u>260,522,157</u>	<u>295,403,038</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 25 Other payables

	31 December			30 June
	2003	2004	2005	2006
	HK\$	HK\$	HK\$	HK\$
Deposits and receipts in advance .....	15,825,361	17,003,759	16,991,192	14,438,302
Other payables .....	25,284,642	18,586,661	26,885,414	54,933,062
	<u>41,110,003</u>	<u>35,590,420</u>	<u>43,876,606</u>	<u>69,371,364</u>
Amounts expected to be settled within 1 year .....	<u>29,156,361</u>	<u>21,970,848</u>	<u>27,775,879</u>	<u>51,999,011</u>

## 26 Capital and reserves

## (a) Share capital

The Company was incorporated on 5 September 2006 with an authorised share capital of HK\$500,000,000 divided into 5,000,000,000 ordinary shares of HK\$0.1 each. On the same day, one subscriber's share in the Company was allotted and issued to Reid Services Limited and was transferred to its immediate holding company, China Insurance H.K. (Holdings) Company, Limited ("CIHK") for a consideration of HK\$0.1. The transfer was registered on the Cayman Islands. On 29 November 2006, the board of directors of the Company approved and authorised the allotment and issuance of 1,454,199,999, 638,000,000 and 107,800,000 shares to China Insurance H.K. (Holdings) Company Limited, Marvel Bonus International Limited and Share China Assets Limited respectively, credited as fully paid, as a consideration for the transfer of the entire issued ordinary share capital of Ming An Hong Kong pursuant to the terms of the Reorganisation Agreement dated 29 November 2006.

For the purpose of this report, share capital in the Group's combined balance sheets as at 31 December 2003, 2004 and 2005 and 30 June 2006 represents the registered issued share capital of Ming An Hong Kong comprising 11,360,000 ordinary shares of HK\$100 each and 2,000,000 deferred shares of HK\$100 each.

## (b) Nature and purpose of reserves

## (i) General reserve

Pursuant to a minute of the board of directors of Ming An Hong Kong passed on 28 December 2005, the general reserve was cancelled and transferred to retained profits. The general reserve is not held for any special purpose and represents only an allocation of the net profit to the general reserve in prior years.

## (ii) Reserves required under local regulatory requirements

In accordance with the Company Law of the PRC, a subsidiary established in the PRC is required to allocate 10% and 5% to 10% of their profits after tax to the statutory surplus reserve and the statutory public welfare fund respectively. No allocation to the statutory surplus reserve is required after the balance of such reserve reaches 50% of the registered capital of the subsidiary.

## (iii) Capital reserve

Capital reserve represents the goodwill arising from consolidation which had previously been taken directly to this reserve (i.e. goodwill which arose before 1 January 2002) and will not be recognised in profit or loss on disposal or impairment of the acquired business or under any circumstances.

## (iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

## (v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 2(k) and 2(n).

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****27 Capital commitment**

Capital commitments outstanding at the year/period end not provided for are as follows:

	31 December			30 June
	2003	2004	2005	2006
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Contracted for .....	3,561,298	–	–	3,352,396

**28 Operating lease commitments**

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December			30 June
	2003	2004	2005	2006
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Within 1 year .....	1,240,822	1,032,258	740,619	1,212,436
After 1 year but within 5 years .....	346,390	680,852	42,000	1,792,651
	1,587,212	1,713,110	782,619	3,005,087

The Group leases 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 the leases includes contingent rentals.

**29 Pledge of assets**

The Group did not pledge any assets as at 31 December 2004 and 2005 and 30 June 2006. During 2003, certain land and buildings of the Group with a net book value of HK\$210,182,288 and investment properties with a carrying value of HK\$291,287,712 had been pledged to a bank to secure banking facilities of approximately HK\$280,000,000 which were granted to a fellow subsidiary. The outstanding balance of the banking facilities utilised as at 31 December 2003 was HK\$100,000,000. On 26 August 2004, the secured liabilities were repaid and discharged in full.

**30 Contingent liabilities**

(a) A guarantee has been given to a bank in Spain in respect of an indemnity related to a marine hull insurance claim occurred there. At the balance sheet dates, the amounts of guarantee are approximately:

	31 December			30 June
	2003	2004	2005	2006
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Letter of guarantee issued .....	16,500,000	25,345,000	21,865,421	23,435,866

The insurance claim was settled on 11 May 2006. As the insurance claim occurred overseas, it took several months to complete all administrative procedures in releasing the guarantee with the bank. The guarantee was eventually released on 27 September 2006.

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****30 Contingent liabilities (continued)**

(b) In November 2005, the Group received a query issued by the Inland Revenue Department of Hong Kong in relation to the taxability of certain realised and unrealised gains on the disposal of listed investments for the years of assessment from 2000/2001 to 2002/2003. Considering that such gains were capital in nature, the directors believe that the Group has good prospect to support its tax position, and therefore no provision for a potential tax exposure of approximately HK\$30 million was made in the Financial Information.

Save as herein disclosed above and other than those incurred in the normal course of the Group's insurance business, there was no outstanding litigations nor any contingent liabilities as at 30 June 2006.

**31 Insurance and financial risk management**

The core business of the Group is direct insurance business. The Group has a risk management framework which controls exposure to risks relevant to its business. The Underwriting Committee, the Claims Committee, the Investment Committee and the Internal Audit Committee are set up to identify, control and monitor the Group's exposure to all risks, and recommend the necessary measures to mitigate them. These committees, which consist of members of the senior management, are chaired by the Chief Executive Officer and regular meetings are held to review and revise the Group's underwriting guidelines, claims procedures and investment strategies.

**(a) Insurance risk****(i) Underwriting strategy and policies to mitigate insurance risk**

The nature of an insurance contract is to protect policyholders from random and unpredictable events. Policyholders transfer risks to insurers through insurance contracts. Uncertainty is an inherent part of insurance, and uncertainty arising from insurance contracts can have a material effect on the amount, timing and uncertainty of the Group's future cash flow. The occurrence of events, and the severity and frequency of loss follow stochastic processes. Changes in the general price level, legislation and judicial interpretation may have a significant effect on the level of claims reserves. There may be significant time lags between the reporting and settlement of claims. Reserves are established by analysing historical records of underwriting results and claims development, subject to rigorous reviews by external actuaries. The Group assesses the accumulation of risks and aggregate exposure regularly, and may arrange additional reinsurance to control the aggregate exposure.

The Group delegates underwriting authority to experienced underwriters. Each underwriting department has an underwriting manual for each class of business, approved by the Underwriting Committee, which specifies the authority of underwriters at each level. Each underwriting manual states clearly the minimum gross premium per policy, the maximum sum insured per policy and the aggregate exposure per zone as well as the probable maximum loss which underwriters at each level can underwrite. Risks that exceed the underwriting authority of the head of the underwriting department have to be reviewed and approved by the Underwriting Committee.

The Group also arranges both treaty reinsurance and facultative reinsurance in accordance with international practice. Treaty reinsurance provides automatic reinsurance cover under specific reinsurance contract terms and conditions. Facultative reinsurance is reinsurance of individual risk. Each contract is arranged separately. The choice of reinsurance contract depends on market conditions, market practice and the nature of business. Facultative reinsurance is arranged when an individual risk is not covered by treaty reinsurance or exceeds treaty reinsurance capacity.

Reinsurance does not mitigate the Group's obligation to direct insurance policyholders in the event that reinsurers default on claims, and therefore the Group's financial position may be affected by the solvency of reinsurers, and disputes on reinsurance contracts and claims settlement. To reduce such risks, the Group and its immediate holding company, CIHK monitors the financial strength of the Group's reinsurers on a regular basis. Furthermore, the Group selects reinsurers from the list of reinsurers approved by CIHK and adheres to CIHK's reinsurance guidelines.

**(ii) Terms and conditions of insurance contracts having a material effect on the amount, timing and uncertainty of the Group's future cash flows**

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

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (a) Insurance risk (continued)

## (iii) Major concentration of insurance risk

Management of the Group uses its best effort to maintain a balanced insurance business portfolio in order to diversify its underwriting risks. The top three classes of insurance written in terms of gross written premiums and their share in the whole portfolio of the Group are as follows:

	31 December			30 June	
	2003	2004	2005	2005	2006
	%	%	%	%	%
Fire .....	21	20	25	30	26
Motor .....	31	33	29	25	23
Employees' compensation .....	19	16	15	12	12

The Group underwrites risks in Hong Kong and the PRC. The share of total gross premium written by geographical location is as follows:

	31 December			30 June	
	2003	2004	2005	2005	2006
	%	%	%	%	%
Hong Kong .....	85	82	76	74	79
The PRC .....	15	18	24	26	21

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

- (a) Insurance risk (continued)  
 (iv) Claims development

## Analysis of claims development — gross

## G-Gross

Accident year	31 December								30 June	
	Prior years	1999	2000	2001	2002	2003	2004	2005	2006	Total
	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS
Direct and facultative inward business:										
Estimate of cumulative claims										
– At end of accident year	2,282,370,507	1,214,328,784	1,673,149,519	1,403,172,912	810,332,556	654,328,237	648,774,052	637,472,865	401,924,510	
– One year later	2,318,626,177	1,384,636,692	1,580,648,201	1,194,609,237	1,024,885,830	831,286,525	625,985,780	756,447,921	–	
– Two years later	4,390,375,008	1,593,607,945	1,774,594,723	1,486,681,577	1,108,869,449	886,177,708	657,505,415	–	–	
– Three years later	3,959,420,057	1,721,985,829	1,745,366,721	1,291,207,463	1,119,432,964	950,319,864	–	–	–	
– Four years later	3,891,732,573	1,598,409,854	1,567,155,592	1,216,098,934	994,073,043	–	–	–	–	
– Five years later	3,759,893,203	1,534,304,421	1,515,685,368	1,133,225,620	–	–	–	–	–	
– Six years later	3,635,331,743	1,475,885,129	1,413,355,007	–	–	–	–	–	–	
– Seven years later	3,544,798,424	1,447,217,609	–	–	–	–	–	–	–	
– Eight years later	3,485,400,086	–	–	–	–	–	–	–	–	
<b>2006</b>										
Direct and facultative inward business:										
Estimate of cumulative claims for the period ended 30 June 2006	3,485,400,086	1,447,217,609	1,413,355,007	1,133,225,620	994,073,043	950,319,864	657,505,415	756,447,921	401,924,510	11,239,469,075
Cumulative payments to 30 June 2006	(3,359,311,332)	(1,362,325,500)	(1,288,035,845)	(975,949,875)	(759,718,884)	(459,134,197)	(263,458,571)	(204,651,595)	(27,647,237)	(8,700,233,036)
Gross provision for outstanding claims as at 30 June 2006	126,088,754	84,892,109	125,319,162	157,275,745	234,354,159	491,185,667	394,046,844	551,796,326	374,277,273	2,539,236,039
Inward treaty business as at 30 June 2006	–	–	–	–	–	–	–	–	–	6,330,245
Gross provision for outstanding claims	–	–	–	–	–	–	–	–	–	2,545,566,284

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (a) Insurance risk (continued)

## (iv) Claims development (continued)

## Analysis of claims development — gross (continued)

## Gross (continued)

Accident year	31 December							30 June		
	Prior years	1999	2000	2001	2002	2003	2004	2005	2006	Total
	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS
<b>2005</b>										
Direct and facultative inward business:										
Estimate of cumulative claims for the year ended 31 December 2005	3,544,798,424	1,475,885,129	1,515,685,368	1,216,098,934	1,119,432,964	886,177,708	625,985,780	637,472,865		11,021,537,172
Cumulative payments to 31 December 2005	(3,330,312,017)	(1,350,252,388)	(1,267,787,778)	(927,223,374)	(682,649,754)	(401,018,862)	(233,352,572)	(117,935,089)		(8,310,531,834)
Gross provision for outstanding claims as at 31 December 2005	214,486,407	125,632,741	247,897,590	288,875,560	436,783,210	485,158,846	392,633,208	519,537,776		2,711,005,338
Inward treaty business as at 31 December 2005										5,947,413
Gross provision for outstanding claims										2,716,952,751
<b>2004</b>										
Direct and facultative inward business:										
Estimate of cumulative claims for the year ended 31 December 2004	3,635,331,743	1,534,304,421	1,567,155,592	1,291,207,463	1,108,869,449	831,286,525	648,774,052			10,616,929,245
Cumulative payments to 31 December 2004	(3,291,931,290)	(1,309,203,105)	(1,185,464,490)	(796,996,797)	(522,499,862)	(307,332,995)	(93,554,911)			(7,506,983,450)
Gross provision for outstanding claims as at 31 December 2004	343,400,453	225,101,316	381,691,102	494,210,666	586,369,587	523,953,530	555,219,141			3,109,945,795
Inward treaty business as at 31 December 2004										13,039,466
Gross provision for outstanding claims										3,122,985,261
<b>2003</b>										
Direct and facultative inward business:										
Estimate of cumulative claims for the year ended 31 December 2003	3,759,893,203	1,598,409,854	1,745,366,721	1,486,681,577	1,024,885,830	654,328,237				10,269,565,422
Cumulative payments to 31 December 2003	(3,185,377,094)	(1,223,054,198)	(1,001,579,698)	(651,316,147)	(384,620,384)	(130,896,846)				(6,576,844,367)
Gross provision for outstanding claims as at 31 December 2003	574,516,109	375,355,656	743,787,023	835,365,430	640,265,446	523,431,391				3,692,721,055
Inward treaty business as at 31 December 2003										24,694,125
Gross provision for outstanding claims										3,717,415,180



## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (a) Insurance risk (continued)

## (iv) Claims development (continued)

## Analysis of claims development – net of reinsurance

Accident year	31 December								30 June	
	Prior years	1999	2000	2001	2002	2003	2004	2005	2006	Total
	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS	HKS
Direct and facultative inward business:										
Estimate of cumulative claims										
– At end of accident year	973,636,081	536,603,600	874,347,143	792,088,487	509,566,215	388,596,278	410,004,194	411,913,427	348,135,644	
– One year later	1,027,539,713	755,878,166	964,594,357	735,518,994	606,140,807	510,269,129	396,783,927	542,600,725	–	
– Two years later	1,791,551,657	921,204,357	1,088,167,843	883,045,191	653,447,402	505,934,034	408,993,345	–	–	
– Three years later	1,791,525,769	962,691,271	1,039,167,971	749,116,248	654,195,447	431,544,812	–	–	–	
– Four years later	1,699,014,942	875,170,964	919,497,863	689,105,633	512,298,160	–	–	–	–	
– Five years later	1,627,772,458	875,636,639	888,146,909	620,678,727	–	–	–	–	–	
– Six years later	1,673,552,457	826,966,962	821,591,112	–	–	–	–	–	–	
– Seven years later	1,575,831,209	794,481,371	–	–	–	–	–	–	–	
– Eight years later	1,524,452,107	–	–	–	–	–	–	–	–	
<b>2006</b>										
Direct and facultative inward business:										
Estimate of cumulative claims for the period ended 30 June 2006	1,524,452,107	794,481,371	821,591,112	620,678,727	512,298,160	431,544,812	408,993,345	542,600,725	348,135,644	6,004,776,003
Cumulative payments to	(1,487,474,229)	(760,030,985)	(775,279,259)	(581,777,030)	(448,001,994)	(264,385,314)	(147,820,620)	(110,989,736)	(22,657,355)	(4,598,416,522)
30 June 2006										
Net provision for outstanding claims as at 30 June 2006	36,977,878	34,450,386	46,311,853	38,901,697	64,296,166	167,159,498	261,172,725	431,610,989	325,478,289	1,406,359,481
Inward treaty business as at 30 June 2006										6,330,245
Net provision for outstanding claims										1,412,689,726
<b>2005</b>										
Direct and facultative inward business:										
Estimate of cumulative claims for the year ended 31 December 2005	1,575,831,209	826,966,962	888,146,909	689,105,633	654,195,447	505,934,034	396,783,927	411,913,427	–	5,948,877,548
Cumulative payments to	(1,473,765,689)	(754,153,432)	(761,065,027)	(555,844,393)	(411,574,731)	(226,642,324)	(128,289,151)	(73,109,580)	–	(4,384,444,327)
31 December 2005										
Net provision for outstanding claims as at 31 December 2005	102,065,520	72,813,530	127,081,882	133,261,240	242,620,716	279,291,710	268,494,776	338,803,847	–	1,564,433,221
Inward treaty business as at 31 December 2005										5,947,414
Net provision for outstanding claims										1,570,380,635

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (a) Insurance risk (continued)

## (iv) Claims development (continued)

## Analysis of claims development – net of reinsurance (continued)

## Net (continued)

Accident year	31 December										30 June	
	Prior years	1999	2000	2001	2002	2003	2004	2005	2006	Total		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>2004</b>												
Direct and facultative inward business:												
Estimate of cumulative claims for												
the year ended 31 December 2004	1,673,552,457	875,636,639	919,497,863	749,116,248	653,447,402	510,269,129	410,004,194					5,791,523,932
Cumulative payments to												
31 December 2005	(1,453,076,880)	(732,377,011)	(710,967,560)	(468,825,459)	(319,470,249)	(165,950,043)	(63,125,363)					(3,913,792,565)
Net provision for outstanding claims												
as at 31 December 2004	220,475,577	143,259,628	208,530,303	280,290,789	333,977,153	344,319,086	346,878,831					1,877,731,367
Inward treaty business as at												
31 December 2004												13,039,466
Net provision for outstanding claims												1,890,770,833
<b>2003</b>												
Direct and facultative inward business:												
Estimate of cumulative claims for												
the year ended 31 December 2003	1,627,772,458	875,170,964	1,039,167,971	883,045,191	606,140,807	388,596,278						5,419,893,669
Cumulative payments to												
31 December 2003	(1,408,078,124)	(683,835,822)	(594,206,498)	(378,433,874)	(234,435,089)	(80,533,408)						(3,379,522,815)
Net provision for												
outstanding claims as at												
31 December 2003	219,694,334	191,335,142	444,961,473	504,611,317	371,705,718	308,062,870						2,040,370,854
Inward treaty business as at												
31 December 2003												24,694,126
Net provision for outstanding claims												2,065,064,980

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****31 Insurance and financial risk management (continued)****(b) Financial risk**

The Group has exposures to financial risks which arise both in its insurance business and investment activities.

**(i) Liquidity risk**

Liquidity risk is the risk that the Group does not have sufficient funds to settle the liabilities when due. The cash flowing into the Group mainly generates from the collection of premium income, reinsurance claims recoveries, interest income and rental income. Cash outflows largely consist of the payments of direct claims, reinsurance premiums and operating expenses.

Minimum cash level is maintained at all times to ensure that the Group has sufficient cash flows to meet all its obligations. Infrequent large claims are also accounted for when the safety level of cash is determined. Those funds in excess of the daily operations needs are invested in listed shares and bonds. In the past few years, equity and short-term bond (with maturity dates no longer than 5 years) investments form a large portion of the Group's financial investment portfolio.

During the Relevant Periods, the Group generated positive cash flows and had sufficient cash to meet all its obligations.

**(ii) Credit risk**

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

The Group is subject to the credit risk of its reinsurers in the event of insolvency or the reinsurer's failure to honour their payment commitment for any reasons. To reduce such risks, a list of approved reinsurers is maintained and reviewed regularly. All the approved reinsurers should have sound financial strength and a credit rating of BBB- or above from Standard & Poor's credit rating. Business could only be ceded to those companies appeared on the list. Furthermore, strict debt collection procedures are established and closely followed by the Group.

**(iii)** Pursuant to an agreement for the sale and purchase of debt dated 2 June 2006, a fellow subsidiary of the Group, agreed to purchase an insurance receivable of HK\$885,530,116 owed by a third party reinsurer to the Group. The amount was fully settled in cash on 30 June 2006. Therefore the Group had no significant concentration of credit risk.

The Group's investment in debt securities is subject to credit risk. The risk arises due to the potential loss in market value resulting from adverse changes in the issuer's ability to repay. It is the Group's policy to invest in investment grade bonds to limit its exposure to credit risk.

**(c) Market risk**

Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest rates, equity prices and foreign currencies.

**(i) Interest rate risk**

Interest rate risk is the risk to the earnings or market value of the investment portfolio due to the uncertainty in the future interest rates. The Group's exposure to interest rate risk is very limited as the provision for outstanding claim is not discounted. In addition, though investments in debt securities are classified as securities held for trading, disposals will not be effected should their market prices be considered unattractive and in which cases, they will be held to maturity to redeem the debt securities at par.

As at 31 December 2003, 2004 and 2005, and 30 June 2006, the Group has approximately HK\$29 million, HK\$153 million, HK\$139 million and HK\$120 million in debt securities respectively. The Group estimates that a 100 basis point increase or decrease in interest rates would result in a HK\$0.5 million, HK\$3 million, HK\$4 million, and HK\$3 million decrease or increase, respectively, in the market value of its investments in debt securities on the respective dates.

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (i) Interest rate risk (continued)

Effective interest rates and repricing analysis

In respect of income-earning assets and liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

2003

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total	Weighted average effective interest rate
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<i>Maturity dates for assets/ liabilities which reprice before maturity</i>								
<b>Assets</b>								
Financial assets								
– Debt securities	–	–	–	8,017,863	–	–	8,017,863	3.00%
<i>Maturity dates for assets/ liabilities which do not reprice before maturity</i>								
<b>Assets</b>								
Financial assets								
– Equity securities	–	–	–	–	–	402,478,493	402,478,493	Not applicable
– Debt securities	–	–	–	19,491,138	1,377,488	–	20,868,626	3.55%
– Deposits with banks with original maturity more than three months	–	3,448,443	103,242,992	–	–	–	106,691,435	1.45%
– Cash and cash equivalents	725,191,029	–	–	–	–	64,000,779	789,191,808	0.81%
– Statutory deposits	–	–	35,580,000	–	–	–	35,580,000	1.22%
– Other receivables	148,810	–	–	204,324	32,912	24,078,909	24,464,955	2.83%
– Other financial assets	–	–	–	–	–	1,524,501,630	1,524,501,630	Not applicable
Non-financial assets	–	–	–	–	–	2,878,653,589	2,878,653,589	Not applicable
Total assets	725,339,839	3,448,443	138,822,992	27,713,325	1,410,400	4,893,713,400	5,790,448,399	
<b>Liabilities</b>								
Financial liabilities								
– Insurance payables	–	–	–	–	–	496,381,136	496,381,136	Not applicable
– Other financial liabilities	–	–	–	–	–	52,018,926	52,018,926	Not applicable
Non-financial liabilities	–	–	–	–	–	4,322,209,363	4,322,209,363	Not applicable
Total liabilities	–	–	–	–	–	4,870,609,425	4,870,609,425	

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (i) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

2004

	Up to 3 months HK\$	3 to 6 months HK\$	6 to 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Non-interest bearing HK\$	Total HK\$	Weighted average effective interest rate
<i>Maturity dates for assets/ liabilities which reprice before maturity</i>								
<b>Assets</b>								
Financial assets				7,754,460			7,754,460	4.12%
– Debt securities								
<i>Maturity dates for assets/ liabilities which do not reprice before maturity</i>								
<b>Assets</b>								
Financial assets						381,373,900	381,373,900	Not applicable
– Equity securities							145,550,567	3.75%
– Debt securities			52,737,135	91,397,890	1,415,542			
– Deposits with banks with original maturity more than three months		33,818,234	1,050,787				34,869,021	1.63%
– Cash and cash equivalents	624,971,991					484,185	625,456,176	1.18%
– Statutory deposits			42,890,400	15,766,488			58,656,888	1.15%
Other receivables	973,572	930	156,516	1,370,584	32,912	21,573,603	24,108,117	3.69%
Other financial assets						1,492,583,205	1,492,583,205	Not applicable
Non-financial assets						2,515,722,319	2,515,722,319	Not applicable
Total assets	625,945,563	33,819,164	96,834,838	116,289,422	1,448,454	4,411,737,212	5,286,074,653	
<b>Liabilities</b>								
Financial liabilities								
– Insurance payables						485,409,712	485,409,712	Not applicable
– Other financial liabilities						35,814,386	35,814,386	Not applicable
Non-financial liabilities						3,676,434,360	3,676,434,360	Not applicable
Total liabilities						4,197,658,458	4,197,658,458	

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (i) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

2005

	Up to 3 months HK\$	3 to 6 months HK\$	6 to 12 months HK\$	1 to 5 years HK\$	Over 5 years HK\$	Non-interest bearing HK\$	Total HK\$	Weighted average effective interest rate
<i>Maturity dates for assets/ liabilities which reprice before maturity</i>								
<b>Assets</b>								
Financial assets								
– Debt securities	–	7,709,882	–	–	–	–	7,709,882	6.28%
<i>Maturity dates for assets/ liabilities which do not reprice before maturity</i>								
<b>Assets</b>								
Financial assets								
– Equity securities	–	–	–	–	–	312,969,206	312,969,206	Not applicable
– Debt securities	8,829,070	–	–	80,334,790	42,573,409	–	131,737,269	5.39%
– Deposits with banks with original maturity more than three months	–	83,592	16,376,000	392,100	–	–	16,851,692	2.33%
– Cash and cash equivalents	814,130,233	–	–	–	–	412,965	814,543,198	2.68%
– Statutory deposits	11,242,285	4,500,000	42,798,216	–	–	–	58,540,501	2.75%
– Other receivables	2,412,031	71,683	–	1,273,578	805,760	25,540,903	30,103,955	4.25%
– Other financial assets	–	–	–	–	–	1,271,503,518	1,271,503,518	Not applicable
Non-financial assets	–	–	–	–	–	2,621,182,391	2,621,182,391	Not applicable
Total assets	836,613,619	12,365,157	59,174,216	82,000,468	43,379,169	4,231,608,983	5,265,141,612	
<b>Liabilities</b>								
Financial liabilities								
– Insurance payables	–	–	–	–	–	409,804,674	409,804,674	Not applicable
– Other financial liabilities	–	–	–	–	–	44,105,417	44,105,417	Not applicable
Non-financial liabilities	–	–	–	–	–	3,200,896,535	3,200,896,535	Not applicable
Total liabilities	–	–	–	–	–	3,654,806,626	3,654,806,626	

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (i) Interest rate risk (continued)

Effective interest rates and repricing analysis (continued)

2006

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total	Weighted average effective interest rate
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<i>Maturity dates for assets/ liabilities which do not reprice before maturity</i>								
<b>Assets</b>								
Financial assets								
– Equity securities	–	–	–	–	–	411,560,919	411,560,919	Not applicable
– Debt securities	–	–	–	93,556,725	26,132,706	–	119,689,431	5.56%
– Deposits with banks with original maturity more than three months	1,000,000	15,376,000	392,100	54,610	–	–	16,822,710	2.36%
– Cash and cash equivalents	1,695,550,474	–	–	–	–	48,598,910	1,744,149,384	4.17%
– Statutory deposits	70,298,216	–	–	–	–	–	70,298,216	4.52%
Other receivables	1,162,350	–	–	1,430,970	648,368	33,073,722	36,315,410	5.71%
Other financial assets	–	–	–	–	–	383,489,589	383,489,589	Not applicable
Non-financial assets	–	–	–	–	–	2,648,388,356	2,648,388,356	Not applicable
Total assets	1,768,011,040	15,376,000	392,100	95,042,305	26,781,074	3,525,111,496	5,430,714,015	
<b>Liabilities</b>								
Financial liabilities								
– Insurance payables	–	–	–	–	–	397,244,545	397,244,545	Not applicable
– Other financial liabilities	–	–	–	–	–	69,601,116	69,601,116	Not applicable
Non-financial liabilities	–	–	–	–	–	3,072,322,166	3,072,322,166	Not applicable
Total liabilities	–	–	–	–	–	3,539,167,827	3,539,167,827	

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***31 Insurance and financial risk management** *(continued)**(c) Market risk (continued)**(ii) Equity price risk*

The Group has a substantial investment in the listed shares of Pacific Century Insurance Holdings Limited ("PCIH"). However, as management intends to hold this investment for strategic purposes, it is grouped under available-for-sale securities with any change in fair value dealt with in equity and the operating results will not be affected by the fair value movement of the securities. At the end of 2003, 2004, 2005 and as at 30 June 2006, the Group held 96 million (2003) and 91 million (2004, 2005 and 2006) shares in PCIH with a total market value of 2003: HK\$298 million, 2004: HK\$282 million, 2005: HK\$253 million and 2006: HK\$373 million for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 respectively which represents 2003: 74%, 2004: 74%, 2005: 81% and 2006: 91% for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 respectively of total investment in equity securities. A 1% upward or downward movement in the share price of PCIH will lead to an increase or decrease in the net asset value of the Group by 2003: HK\$3 million, 2004: HK\$3 million, 2005: HK\$3 million and HK\$4 million for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006 respectively.

*(iii) Foreign currency risk*

The Group's reporting currency is Hong Kong dollar ("HKD"). The Group has exposure to foreign currency risk as the Group has underwritten insurance policies and collected premiums in currencies other than HKD and holds certain assets and liabilities in such currencies.

Other than the transactions in HKD, the Group transacts business mainly in the United States dollar ("USD") and Renminbi ("RMB"). USD and RMB assets mainly comprise cash and cash equivalents whereas USD and RMB liabilities mainly comprise provision for claims liabilities and insurance payables. At present, the market exchange rate of HKD against USD is set within a fixed trading range from HK\$7.75 to HK\$7.85 against US\$1.00. Although RMB is currently not freely convertible into other currencies, the range of the fluctuation of the exchanges rate between HKD and RMB is narrow. Accordingly, management believes the impact of foreign currency risk to the Group is minimal.



## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (iii) Foreign currency risk (continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2003, 2004 and 2005 and 30 June 2006. Included in the table are the carrying amounts of the assets and liabilities of the Group in HKD categorised by the original currency.

	31 December 2003				
	RMB	USD	HKD	Others	Total
<b>Assets</b>					
Fixed assets					
– Investment properties	–	–	704,456,587	–	704,456,587
– Interests in leasehold land held for own use under operating leases	–	–	196,376,235	–	196,376,235
– Property and equipment	31,911	–	115,100,660	–	115,132,571
Interests in associates	–	–	18,393,085	–	18,393,085
Statutory deposits	–	31,080,000	4,500,000	–	35,580,000
Deferred tax assets	400,732	–	–	–	400,732
Investments in securities	–	29,675,144	402,158,538	–	431,833,682
Insurance receivables	18,637,499	56,307,884	1,415,794,944	3,377,954	1,494,118,281
Unsecured loans and receivables	–	–	20,782,510	–	20,782,510
Other receivables	275,409	1,571,014	22,424,166	194,366	24,464,955
Reinsurers' share of insurance funds	116,592,629	–	1,726,833,050	–	1,843,425,679
Amounts due from fellow subsidiaries	–	–	9,600,839	–	9,600,839
Deposits with banks with original maturity more than three months	2,409,755	–	104,281,680	–	106,691,435
Cash and cash equivalents	76,640,714	582,993,843	123,171,219	6,386,032	789,191,808
	<u>214,988,649</u>	<u>701,627,885</u>	<u>4,863,873,513</u>	<u>9,958,352</u>	<u>5,790,448,399</u>
<b>Liabilities</b>					
Insurance funds	182,002,820	–	4,131,200,135	–	4,313,202,955
Insurance protection fund	3,015,742	–	–	–	3,015,742
Insurance payables	28,915,395	68,733,418	396,524,452	2,207,871	496,381,136
Other payables	1,179,055	201,194	39,623,330	106,424	41,110,003
Amount due to the immediate holding company	–	–	259,619	–	259,619
Amounts due to fellow subsidiaries	–	–	10,649,304	–	10,649,304
Current taxation	2,660,659	–	3,330,007	–	5,990,666
<b>Total liabilities</b>	<u>217,773,671</u>	<u>68,934,612</u>	<u>4,581,586,847</u>	<u>2,314,295</u>	<u>4,870,609,425</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (iii) Foreign currency risk (continued)

	31 December 2004				
	RMB	USD	HKD	Others	Total
<b>Assets</b>					
Fixed assets					
– Investment properties .....	–	–	743,354,810	–	743,354,810
– Interests in leasehold land held for own use under operating leases .....	–	–	214,155,344	–	214,155,344
– Property and equipment .....	27,154	–	113,345,937	–	113,373,091
Interests in associates .....	–	–	17,954,695	–	17,954,695
Statutory deposits .....	11,266,488	42,890,400	4,500,000	–	58,656,888
Deferred tax assets .....	298,418	–	24,500,000	–	24,798,418
Investments in securities .....	–	146,770,000	388,377,627	–	535,147,627
Insurance receivables .....	15,728,466	58,306,216	1,278,925,035	2,467,704	1,355,427,421
Other receivables .....	1,085,620	2,613,454	20,316,424	92,619	24,108,117
Reinsurers' share of insurance funds .....	114,704,262	–	1,286,912,999	–	1,401,617,261
Amount due from the immediate holding company .....	–	–	44,270	–	44,270
Amounts due from fellow subsidiaries .....	–	817,781	136,293,733	–	137,111,514
Deposits with banks with original maturity more than three months .....	3,546,801	–	31,322,220	–	34,869,021
Cash and cash equivalents .....	84,337,220	309,214,210	225,273,070	6,631,676	625,456,176
	<u>230,994,429</u>	<u>560,612,061</u>	<u>4,485,276,164</u>	<u>9,191,999</u>	<u>5,286,074,653</u>
<b>Liabilities</b>					
Insurance funds .....	198,831,071	–	3,464,880,162	–	3,663,711,233
Insurance protection fund .....	4,081,904	–	–	–	4,081,904
Insurance payables .....	32,019,564	72,868,685	379,924,302	597,161	485,409,712
Other payables .....	2,468,346	227,711	32,743,445	150,918	35,590,420
Amounts due to fellow subsidiaries .....	–	–	223,966	–	223,966
Current taxation .....	4,039,765	–	4,601,458	–	8,641,223
<b>Total liabilities</b> .....	<u>241,440,650</u>	<u>73,096,396</u>	<u>3,882,373,333</u>	<u>748,079</u>	<u>4,197,658,458</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (iii) Foreign currency risk (continued)

	31 December 2005				
	RMB	USD	HKD	Others	Total
<b>Assets</b>					
Fixed assets					
– Investment properties	–	–	929,437,629	–	929,437,629
– Interests in leasehold land held for own use under operating leases	–	–	232,336,845	–	232,336,845
– Property and equipment	9,188,231	–	103,518,862	–	112,707,093
Interests in associates	–	–	19,979,347	–	19,979,347
Statutory deposits	–	54,040,501	4,500,000	–	58,540,501
Deferred tax assets	196,103	–	69,200,000	–	69,396,103
Investments in securities	–	139,652,236	313,256,221	–	452,908,457
Insurance receivables	22,510,942	60,100,556	1,070,662,339	1,678,887	1,154,952,724
Other receivables	1,254,512	4,055,986	24,762,705	30,752	30,103,955
Reinsurers' share of insurance funds	102,255,552	–	1,154,577,722	–	1,256,833,274
Amounts due from fellow subsidiaries	–	–	116,524,227	26,567	116,550,794
Deposits with banks with original maturity more than three months	15,376,000	–	1,475,692	–	16,851,692
Cash and cash equivalents	74,001,650	345,331,235	386,823,350	8,386,963	814,543,198
	<u>224,782,990</u>	<u>603,180,514</u>	<u>4,427,054,939</u>	<u>10,123,169</u>	<u>5,265,141,612</u>
<b>Liabilities</b>					
Insurance funds	240,009,992	–	2,951,636,684	–	3,191,646,676
Insurance protection fund	109,676	–	–	–	109,676
Insurance payables	14,578,946	53,732,638	340,498,755	994,335	409,804,674
Other payables	1,761,406	428,709	41,605,749	80,742	43,876,606
Amounts due to fellow subsidiaries	–	–	228,619	192	228,811
Current taxation	4,538,724	–	4,601,459	–	9,140,183
Total liabilities	<u>260,998,744</u>	<u>54,161,347</u>	<u>3,338,571,266</u>	<u>1,075,269</u>	<u>3,654,806,626</u>

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 31 Insurance and financial risk management (continued)

## (c) Market risk (continued)

## (iii) Foreign currency risk (continued)

	30 June 2006				
	RMB	USD	HKD	Others	Total
<b>Assets</b>					
Fixed assets					
– Investment properties	–	–	948,690,000	–	948,690,000
– Interests in leasehold land held for own use under operating leases	–	–	227,339,746	–	227,339,746
– Property and equipment	9,667,817	–	102,568,804	–	112,236,621
Interests in associates	–	–	5,723,204	–	5,723,204
Statutory deposits	–	42,798,216	27,500,000	–	70,298,216
Deferred tax assets	196,103	–	69,200,000	–	69,396,103
Investments in securities	–	119,689,431	412,053,019	–	531,742,450
Insurance receivables	28,530,385	94,895,778	216,747,970	3,191,787	343,365,920
Other receivables	7,002,519	1,126,275	28,155,866	30,750	36,315,410
Reinsurers' share of insurance funds	102,911,267	–	1,181,599,315	–	1,284,510,582
Amount due from the immediate holding company	–	–	2,454	–	2,454
Amounts due from fellow subsidiaries	–	–	40,121,215	–	40,121,215
Deposit with banks with original maturity more than three months	15,376,000	–	1,446,710	–	16,822,710
Cash and cash equivalents	63,321,973	406,536,782	1,264,566,068	9,724,561	1,744,149,384
<b>Total assets</b>	<b>227,006,064</b>	<b>665,046,482</b>	<b>4,525,714,371</b>	<b>12,947,098</b>	<b>5,430,714,015</b>
<b>Liabilities</b>					
Insurance funds	244,374,249	–	2,821,526,914	–	3,065,901,163
Insurance protection fund	280,490	–	–	–	280,490
Insurance payables	34,811,815	73,143,291	288,004,316	1,285,123	397,244,545
Other payables	3,857,147	188,246	65,246,616	79,355	69,371,364
Amounts due to fellow subsidiaries	–	–	229,752	–	229,752
Current taxation	1,539,054	–	4,601,459	–	6,140,513
<b>Total liabilities</b>	<b>284,862,755</b>	<b>73,331,537</b>	<b>3,179,609,057</b>	<b>1,364,478</b>	<b>3,539,167,827</b>

## 32 Employee retirement benefits

The Group operates Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance and one Staff Provident Fund Scheme (the "SPF scheme") under the Occupational Retirement Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both schemes are defined contribution retirement plans administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to contribute an amount equal to 5% of the employees' relevant income (but subject to the maximum relevant income of HK\$20,000 per month). Contributions to the MPF scheme vest immediately. For the SPF scheme, the Group is required to make contributions based on a certain percentage of the relevant employees' salaries which is dependent on their length of service with the Group. Forfeited contributions to the SPF scheme are used to reduce the Group's future contributions. During the years ended 31 December 2003, 2004 and 2005 and six months ended 30 June 2005 and 2006, forfeited contributions used to reduce the Group's future contributions amounted to HK\$98,847, HK\$78,761, HK\$110,505, HK\$75,796 and HK\$16,804 respectively.

Employees engaged by the Group outside Hong Kong are covered by the appropriate local defined contribution schemes pursuant to the local labour rules and regulations.

The Group's total pension cost charged to the combined income statements for the Relevant Periods are disclosed in note 7(a).

## VI NOTES TO THE FINANCIAL INFORMATION (Continued)

## 33 Material related party transactions

## (a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10 is as follows:

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
Short-term employee benefits .....	7,196,239	7,487,835	7,449,043	4,546,675	5,847,843
Post-employment benefits .....	488,685	486,683	475,136	230,653	330,888
	<u>7,684,924</u>	<u>7,974,518</u>	<u>7,924,179</u>	<u>4,777,328</u>	<u>6,178,731</u>

Total remuneration is included in "staff costs" (see note 7(a)).

## (b) Income and expenses for the year

	Note	Year ended 31 December			Six months ended 30 June	
		2003	2004	2005	2005	2006
		HK\$	HK\$	HK\$	(unaudited) HK\$	HK\$
<b>Transactions with the immediate holding company:</b>						
Rental income .....	(i)	6,709,118	3,692,184	2,815,308	1,391,112	1,926,912
Management fee .....	(ii)	–	(6,514,000)	(6,850,000)	(6,850,000)	(15,802,700)
<b>Transactions with the ultimate holding company:</b>						
Gain on disposal of a fellow subsidiary .....	(iii)	–	–	–	–	1
<b>Transactions with fellow subsidiaries:</b>						
<i>China Insurance Group Investment Holdings Company Limited ("CIGI"):</i>						
Loss on disposal of a subsidiary .....	(iv), (v) and (vi)	–	–	–	–	(1,101,819)
Loss on disposal of an associate .....	(vii)	–	–	–	–	(231)
Gain on transfer of a loan receivable .....	(viii)	–	–	–	–	1
<i>Other fellow subsidiaries:</i>						
Business ceded to fellow subsidiaries .....	(ix)					
– Outward reinsurance premiums .....		(91,099,980)	(67,900,975)	(64,608,096)	(34,200,225)	(46,064,836)
– Commission income received .....		19,282,765	13,294,438	16,546,557	9,068,853	11,877,787
– Claims recoveries received .....		73,425,666	75,501,077	61,682,715	28,267,300	35,760,099
– Interest paid .....		(7,926)	(8,904)	(3,811)	(1,922)	(1,859)
Investment management fees .....	(x)	(2,832,280)	(2,307,288)	(1,376,609)	(686,668)	(541,000)
Rental income .....	(xi)	1,936,437	2,020,332	1,924,637	967,416	919,890
Sale of an insurance receivable .....	(xii)	–	–	–	–	–
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****33 Material related party transactions (continued)****(b) Income and expenses for the year (continued)**

Notes:

**Immediate holding company**

- (i) The Group leased its properties to its immediate holding company, CIHK, and received rental income. Rental income is generally charged at the market rental rate.
- (ii) The Group paid a management fee to CIHK for managing the operations of the Group. The management fee was charged at a rate ranging from 0.1% to 0.6% of the net assets of Ming An Hong Kong, a subsidiary of the Group, for basic management charge and at a rate of 1% to 1.5% of the profit before tax of Ming An Hong Kong for risk management charge.

All the above balances have been dealt with in the amount due to the immediate holding company.

**Ultimate holding company**

- (iii) Pursuant to an agreement dated 30 May 2006, Chellink, a subsidiary of the Group, agreed to transfer its 15% interest in Ankeen Investments Limited ("Ankeen"), a fellow subsidiary of the Group, with a net book value of HK\$1, at a consideration of HK\$1 and a shareholder's loan of HK\$4,801,757 owed by Ankeen to Chellink at a consideration of HK\$1 to China Insurance (Holdings) Company, Limited ("CIHC"), the ultimate holding company. The shareholder's loan was considered irrecoverable and was fully provided for in the Financial Information in previous years. The transaction resulted in a gain on transfer of the shareholder's loan of HK\$1. The transaction has been settled before 30 June 2006.

**Fellow subsidiary — CIGI**

- (iv) Pursuant to an agreement dated 30 May 2006, Onah, a subsidiary of the Group, agreed to transfer its 60% interest in Richtex, a subsidiary of the Group, with a zero net book value, at a consideration of HK\$1 and a shareholder's loan of HK\$15,331,126 owed by Richtex to Onah at a consideration of HK\$1 to CIGI. The shareholder's loan was considered irrecoverable and was fully provided for in the Financial Information in previous years. The transaction has resulted in a gain on disposal of the subsidiary and transfer of the shareholder's loan amounting to HK\$3 after taking into account the post acquisition reserve.
- (v) Pursuant to an agreement dated 30 May 2006, Chellink agreed to transfer its 40% interest in Richtex with a zero net book value after provision, at a consideration of HK\$1 to CIGI. The transaction has resulted in a gain on disposal of subsidiary of HK\$1.
- (vi) Pursuant to an agreement dated 30 May 2006, Ming An Hong Kong agreed to transfer its 100% interest in Sermax, with a net book value of HK\$1, at a consideration of HK\$2 and a shareholder's loan of HK\$1,758,424 after provision owed by Sermax to Ming An Hong Kong at a consideration of HK\$1,757,839 to CIGI. The consideration was determined with reference to the net asset value of Sermax as at the date of disposal. The transaction resulted in a loss on disposal of subsidiary of HK\$1,101,823 after taking into account the post acquisition reserve.
- (vii) Pursuant to an agreement dated 19 May 2006, Ming An Hong Kong agreed to transfer its 30% interest in Sanlink at a consideration of HK\$4,341,000 and a shareholder's loan in the aggregate amount of HK\$9,660,000 owed by Sanlink to Ming An Hong Kong at a consideration of HK\$9,660,000 to CIGI. A loss of HK\$231 was incurred on the disposal of subsidiary after taking into account the share of profits in previous years.
- (viii) Pursuant to an agreement dated 1 June 2006, Chellink agreed to transfer a loan of HK\$26,526,384 owed by a third party company to Chellink at a consideration of HK\$1 to CIGI. The debt was considered irrecoverable and was fully provided for in the Financial Information in previous years. The transaction has resulted in a gain of HK\$1.

All the above transactions related to CIGI have been settled before 30 June 2006.

**Other fellow subsidiaries**

- (ix) The Group ceded gross written premiums to certain fellow subsidiaries of the Group and received commission and claims recoveries and made other related payments. The terms of the business ceded by the Group to these fellow subsidiaries were similar to those offered by the third party ceding companies.

**VI NOTES TO THE FINANCIAL INFORMATION (Continued)****33 Material related party transactions (continued)****(b) Income and expenses for the year (continued)**

Notes: (continued)

- (x) The Group paid investment management fees to certain fellow subsidiaries as investment managers of the Group. The investment management fees were charged at 0.1%–1% of the net assets managed.
- (xi) The Group leased its properties to its fellow subsidiaries and received rental income. Rental income is generally charged at the market rental rate.

All the above balances have been dealt with in the amounts due from/to fellow subsidiaries.

**(xii) Transactions with state-owned entities in the PRC**

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations (“state-owned entities”)

Transactions with other state-owned entities include but are not limited to the following:

- insurance and other intermediary services; and
- rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group’s business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as underwriting insurance contracts and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not.

- (1) Pursuant to an agreement for the sale and purchase of insurance receivable dated 2 June 2006, a fellow subsidiary of the Group, agreed to purchase an insurance receivable with a net book value of HK\$885,530,116 owed by a third party reinsurer to the Group, which is a state-owned entity in the PRC. The amount was fully settled in cash on 30 June 2006. (see note 18)
- (2) Having due regard to the substance of the relationships and the significance of the transactions with other state-owned entities, the directors are of the opinion that none of other transactions are material related party transactions that require separate disclosure.

Other than the management fee payable to the immediate holding company referred in (b)(ii) and the gain/loss on disposal of subsidiaries/associates/loan receivables referred in (b)(iii), (iv), (v), (vi), (vii), (viii), and (xii)(1) which are non-recurring, the directors considered that all the related party transactions will continue after the listing.

**34 Accounting estimates and judgements**

The preparation of the Financial Information in conformity with HKFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Information and the reported amounts of revenues and expenses during the year/period then ended. While management believes that the amounts included in the Financial Information reflect its best estimates and assumptions, actual results could differ from those estimates. The Group’s principal estimates include:

- Realisation of deferred tax assets;
- Fair value and impairment of available-for-sale securities;
- Provision for outstanding claims; and
- Provision for unexpired risks.

Key sources of estimation uncertainty, including assumptions and key risk factors, and critical judgements in relation to these accounting policies are set out in notes 8, 17 and 20.

**35 Balance sheet of the Company**

The Company had neither significant assets nor liabilities nor distributable reserves as at 30 June 2006 as it had not been involved in any significant business transactions except for the Reorganisation since its incorporation in the Cayman Islands on 5 September 2006.

**VI NOTES TO THE FINANCIAL INFORMATION** *(Continued)***36 Parent and ultimate holding companies**

The directors consider the parent company and the ultimate holding company at 30 June 2006 to be CIHK (incorporated in Hong Kong) and CIHC (established in the PRC) respectively. Neither of them produces financial statements available for public use.

**37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 June 2006**

Up to the date of issue of the Financial Information, the HKICPA has issued the following amendments, which are relevant to the Group and not yet effective for the accounting period ended 30 June 2006 and which have not been adopted in this Financial Information:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of Financial Statements: Capital Disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

**38 Non-adjusting post balance sheet events**

The Group underwent a group reorganisation to rationalise the Group's structure in the preparation of the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, the details of which are set out in the section "Our Reorganisation" to the Prospectus.

Other than the Reorganisation, no significant events took place subsequent to 30 June 2006 and up to the date of this report.

**39 Subsequent financial statements**

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 June 2006.

Yours faithfully,  
**KPMG**  
*Certified Public Accountants*  
Hong Kong