

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 1 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group and the Company is set out below.

#### (b) Basis of preparation of accounts

The Company was incorporated in Hong Kong with limited liability on 18 February 2000 under the Hong Kong Companies Ordinance and through a reorganisation became the holding company of the Group on 26 May 2000. The Group has been treated as a continuing entity and accordingly the accounts have been prepared on the basis that the Company was the holding company of the Group for the whole of the 2000 financial year, rather than from 26 May 2000. The results of the Group for the year ended 31 December 2000 included the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, where this was a shorter period. In the opinion of the directors, the combined results gives a more meaningful view of the results of the Group as a whole for the year ended 31 December 2000.

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

#### (c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

**1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(c) Subsidiaries** *(Continued)*

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. 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.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

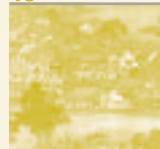
**(d) Associates**

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 consolidated accounts 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, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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 consolidated profit and loss account.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (note 1(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

Positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(j)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(j)) is included in the carrying amount of the interest in associates.

#### (f) Other investments in securities

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

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

**1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(g) Fixed assets**

- (i) Fixed assets are carried in the balance sheets on the following bases:
- investment properties are stated in the balance sheet at their open market value and are not depreciated except where the unexpired terms of the leases are 20 years or less, in which case the then carrying amounts are amortised on the straight-line basis over the respective remaining lease terms. It is the Group's policy to undertake valuations at intervals of not more than three years by independent professional valuers on an open market value basis. During the intervening years investment properties will be valued at open market value by independent professional valuers or appropriately qualified directors or executives within the Group on an annual basis; and
  - other property, plant and equipment are stated at cost less accumulated depreciation (note 1(i)) and impairment losses (note 1(j)).
- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
- when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, immediately prior to the revaluation; and
  - when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of that same asset, or, solely in the case of investment properties, the portfolio of investment properties, had previously been charged to the profit and loss account.
- (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 or the Company. 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 profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Leased assets

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.

##### (i) Assets held for use in operating leases

Where the Group or the Company leases out assets under operating leases, the assets are included in the balance sheets according to their nature and, where applicable, are depreciated in accordance with the depreciation policies, as set out in note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Revenue arising from operating leases is recognised in accordance with the Group's or the Company's revenue recognition policies, as set out in note 1(p)(ii).

##### (ii) Operating lease charges

Where the Group or the Company has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account 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 received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

#### (i) Amortisation and depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years.

(ii) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives using the straight-line method, at the following rates per annum:

|                    |                                  |
|--------------------|----------------------------------|
| Leasehold land     | over the unexpired term of lease |
| Buildings          | 2%                               |
| Other fixed assets | 20%                              |

**1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(j) Impairment of 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 an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (other than properties carried at revalued amounts);
- investments in subsidiaries and associates (except for those accounted for at fair value under notes 1(c) and (d)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

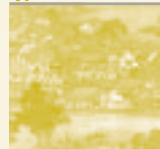
**(i) Calculation of recoverable amount**

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).

**(ii) Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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 profit and loss account in the year in which the reversals are recognised.





## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Underwriting results

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

The revenue accounts in respect of life business is prepared on an annual basis and is closed at the end of each accounting year and the balance is transferred to the profit and loss account. Mortality fluctuation, future liability, outstanding claims and claims incurred but not yet reported are all included in life assurance funds.

#### (l) Insurance liabilities

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

##### *Non-life reinsurance business*

The insurance liabilities of non-life reinsurance business comprise insurance funds for open underwriting years and a provision for outstanding claims for closed years.

- (a) Insurance funds represent the balance of net written premiums and related income over net claims paid and related acquisition costs in respect of open underwriting years. Under the fund accounting basis, an account is maintained for each underwriting year in which premiums, claims, expenses and other relevant income and expenditure are recorded. Each underwriting year account is held open for three years. The adequacy of the amount held in each underwriting year account is considered annually. For open years, no profits are recognised, but material deficiencies are recognised as soon as they are foreseen.
- (b) Provision for outstanding claims represents estimated liabilities relating to the closed underwriting years of non-life reinsurance business in respect of claims and claims incurred but not reported after deducting amounts recoverable from retrocessionaires. Provision is also made for the estimated cost of servicing claims notified but not settled at the balance sheet date and to meet expenses on claims incurred but not reported at the balance sheet date.

**1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(l) Insurance liabilities** *(Continued)**Life insurance business*

Life assurance funds represent reserves to cover mortality fluctuation, future liability, outstanding claims and claims incurred but not yet reported. It is determined by reference to an actuarial valuation model which was prepared by an actuary appointed by the Company.

**(m) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the 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.

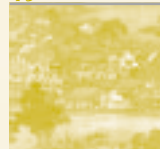
Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed 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.

**(n) Translation of foreign currencies****(i) Individual companies**

Foreign currency transactions during the year 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. The resulting exchange gains and losses are included in the profit and loss account.

**(ii) On consolidation**

The results of branches and subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.





## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Deferred taxation

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

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

#### (p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the Company, and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

##### (i) Premiums income

Non-life reinsurance premiums are recognised in the revenue account when the underwriting transactions are reported from cedants. Any underwriting transactions reported subsequent to the balance sheet date are included in the revenue account for the immediate following year.

Life insurance premiums are recognised on an accrual basis when insurance policies are issued and related insurance risk is transferred to the Group.

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

Rental income receivable under operating leases is recognised in the profit and loss account 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 profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

##### (iii) Income from insurance intermediaries business

Income from insurance intermediaries business is recognised when the service is rendered.

##### (iv) Dividends

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

**1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(p) Revenue recognition** *(Continued)***(v) Interest income**

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

**(q) Related parties**

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

**(r) Cash equivalents**

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

**(s) Trust account**

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

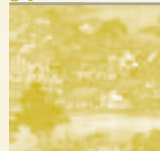
**(t) Retirement costs**

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

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

**(u) Management expenses**

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



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (v) 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, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

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. 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 enterprises 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.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are the underwriting of reinsurance of all classes of non-life reinsurance and certain classes of long term businesses. The Group also carries on insurance intermediaries business and, to support its reinsurance activities, holds securities, investments in money market and property investments.

Turnover represents gross premiums written and income from insurance intermediaries business.

|  | 2001                      | 2000                      |
|--|---------------------------|---------------------------|
|  | \$                        | \$                        |
| <b>Gross premiums written</b>                        |                           |                           |
| Non-life   |                           |                           |
| — Non-proportional                                   | 197,704,752               | 146,175,134               |
| — Proportional                                       | 613,973,194               | 531,927,060               |
| Life   | <u>7,095,743</u>          | <u>5,350,363</u>          |
|  | 818,773,689               | 683,452,557               |
| <b>Income from insurance intermediaries business</b> | <u>11,618,164</u>         | <u>7,591,722</u>          |
|  | <u><u>830,391,853</u></u> | <u><u>691,044,279</u></u> |

### 3 OTHER REVENUE

|  | 2001                      | 2000                     |
|--|---------------------------|--------------------------|
|  | \$                        | \$                       |
| Dividend income from listed securities   | 5,299,776                 | 5,575,749                |
| Dividend income from unlisted securities | 244,886                   | —                        |
| Interest income from listed securities   | 58,805,692                | 44,899,505               |
| Interest income from unlisted securities | 14,523,404                | 8,374,747                |
| Other interest income                    | 18,881,951                | 24,883,233               |
| Rental income                            | 3,361,591                 | 3,229,715                |
| Others                                   | <u>4,283,406</u>          | <u>559,899</u>           |
|  | <u><u>105,400,706</u></u> | <u><u>87,522,848</u></u> |

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 4 OTHER NET INCOME/(LOSS)

|   | 2001               | 2000                |
|---|--------------------|---------------------|
|   | \$                 | \$                  |
| (Losses)/gains on disposal of fixed assets                | (20,602)           | 1,497,973           |
| Losses on disposal of investment properties               | —                  | (782,563)           |
| Deficit on revaluation of investment properties           | (7,920,280)        | (3,309,036)         |
| Net realised and unrealised losses on listed securities   | (8,971,003)        | (25,830,333)        |
| Gains on disposal of unlisted securities                  | 210,595,624        | 1,151,889           |
| Recovery from losses on disposal of dated debt securities | —                  | 20,852,155          |
| Losses on disposal of dated debt securities               | —                  | (17,761,405)        |
| Amortisation of discounts of dated debt securities        | 11,027,011         | 11,847,760          |
| Provision for diminution in value of unlisted investments | —                  | (4,127,000)         |
| Others  | 3,196,795          | 8,646               |
|   | <u>207,907,545</u> | <u>(16,451,914)</u> |

### 5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

|  | 2001              | 2000             |
|--|-------------------|------------------|
|  | \$                | \$               |
| <b>(a) Finance costs:</b>  |                   |                  |
| Interest on other loans wholly repayable within five years                         | <u>405,812</u>    | <u>—</u>         |
| <b>(b) Other items:</b>  |                   |                  |
| Staff costs (other than retirement benefit costs)                                  | 31,446,044        | 19,853,816       |
| Retirement benefit costs   | 1,800,850         | 1,163,052        |
| Less: Amounts deferred and included in insurance funds                             | (11,296,377)      | (11,407,432)     |
|  | <u>21,950,517</u> | <u>9,609,436</u> |
| Number of employees at the balance sheet date                                      | <u>372</u>        | <u>69</u>        |
| Auditors' remuneration   | 850,400           | 725,485          |
| Depreciation   | 2,730,442         | 2,174,820        |
| Operating lease charges: minimum lease payments<br>in respect of properties        | 4,886,810         | 346,924          |
| Amortisation of goodwill   | 3,108,078         | —                |
| Amortisation of goodwill included in share of losses<br>less profits of associates | <u>310,070</u>    | <u>—</u>         |

## 6 TAXATION

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

|  | 2001<br>\$               | 2000<br>\$              |
|--|--------------------------|-------------------------|
| Provision for Hong Kong Profits Tax for the year | 35,111,855               | 6,586,447               |
| Under/(over)-provision in respect of prior years | 2,476,132                | (3,134,386)             |
|  | <u>37,587,987</u>        | <u>3,452,061</u>        |
| Taxation outside Hong Kong                       | 423,419                  | 776,957                 |
| Deferred taxation (note 27(a))                   | (288,084)                | (3,144,171)             |
|  | <u>37,723,322</u>        | <u>1,084,847</u>        |
| Share of associates' taxation                    | 126,827                  | —                       |
|  | <u><u>37,850,149</u></u> | <u><u>1,084,847</u></u> |

The provision for Hong Kong Profits Tax represents the Group's estimated Profits Tax liability calculated at the standard tax rate of 16% (2000: 16%) on its assessable profits from life and other insurance businesses except for its assessable profits from the business of reinsurance of offshore risks, which is calculated at one-half of the standard tax rate of 8% (2000: 8%).

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

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

|  | The Group                |                          | The Company              |                 |
|--|--------------------------|--------------------------|--------------------------|-----------------|
|  | 2001<br>\$               | 2000<br>\$               | 2001<br>\$               | 2000<br>\$      |
| Provision for Hong Kong Profits Tax for the year                           | 35,111,855               | 6,586,447                | 33,653,242               | —               |
| Provisional Profits Tax paid   | (435,610)                | (3,419,220)              | —                        | —               |
|  | <u>34,676,245</u>        | <u>3,167,227</u>         | <u>33,653,242</u>        | <u>—</u>        |
| Balance of Hong Kong Profits Tax provision relating to prior years         | 6,169,011                | 1,879,578                | —                        | —               |
| Taxation outside Hong Kong   | 8,539,100                | 8,176,957                | —                        | —               |
|  | <u><u>49,384,356</u></u> | <u><u>13,223,762</u></u> | <u><u>33,653,242</u></u> | <u><u>—</u></u> |
| Amount of taxation payable expected to be settled after more than one year | <u><u>8,503,937</u></u>  | <u><u>8,135,897</u></u>  | <u><u>—</u></u>          | <u><u>—</u></u> |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 7 DIRECTORS' REMUNERATION

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

|                                   | 2001<br>\$       | 2000<br>\$       |
|-----------------------------------|------------------|------------------|
| Executive directors:              |                  |                  |
| — Fees                            | —                | —                |
| — Salaries and other emoluments   | 3,892,465        | 2,009,530        |
| — Discretionary bonuses           | 1,674,000        | 1,922,000        |
| — Retirement scheme contributions | 274,809          | 251,334          |
|                                   | <u>5,841,274</u> | <u>4,182,864</u> |
| Non-executive directors:          |                  |                  |
| — Fees                            | 400,000          | 200,000          |
| — Salaries and other emoluments   | —                | —                |
| — Discretionary bonuses           | —                | 96,000           |
| — Retirement scheme contributions | —                | —                |
|                                   | <u>400,000</u>   | <u>296,000</u>   |

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

The remuneration of the directors is within the following bands:

| \$                    | 2001<br>Number of<br>directors | 2000<br>Number of<br>directors |
|-----------------------|--------------------------------|--------------------------------|
| Nil - 1,000,000       | 6                              | 7                              |
| 1,000,001 - 1,500,000 | 2                              | 1                              |
| 1,500,001 - 2,000,000 | 1                              | 1                              |

There were no amounts paid during the year (2000: \$Nil) to former directors in connection with their retirement from employment with the Group.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2000: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2000: three) individuals are as follows:

|                                 | 2001<br>\$       | 2000<br>\$       |
|---------------------------------|------------------|------------------|
| Salaries and other emoluments   | 1,352,177        | 1,879,370        |
| Discretionary bonuses           | 356,000          | 829,000          |
| Retirement scheme contributions | 178,740          | 232,083          |
|                                 | <u>1,886,917</u> | <u>2,940,453</u> |

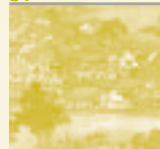
The emoluments of the two (2000: three) individuals with the highest emoluments are within the following bands:

| \$                    | 2001<br>Number of<br>individual | 2000<br>Number of<br>individual |
|-----------------------|---------------------------------|---------------------------------|
| Nil -1,000,000        | 2                               | 2                               |
| 1,000,001 - 1,500,000 | <u>—</u>                        | <u>1</u>                        |

There were no amounts paid during the year (2000: \$Nil) to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation of loss of office.

### 9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$191,190,188 (2000: \$42,406,724) which has been dealt with in the accounts of the Company.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 10 DIVIDENDS

#### (a) Dividends attributable to the year

|  | 2001              | 2000              |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Interim dividend declared and paid of<br>1.5 cents (2000: \$Nil) per share                       | 15,410,310        | —                 |
| Final dividend proposed after the balance sheet date<br>of 3.5 cents (2000: 4.0 cents) per share | 44,551,801        | 35,982,560        |
|  | <u>59,962,111</u> | <u>35,982,560</u> |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

#### (b) Dividends attributable to the previous financial years, approved and paid during the year

|  | 2001       | 2000        |
|--|------------|-------------|
|  | \$         | \$          |
| Final dividend in respect of the previous<br>financial years, approved and paid during<br>the year, of 4.0 cents per share | 35,982,560 | 126,823,127 |

The proposed final dividend for the year ended 31 December 1999 is a combination of final dividends of \$121,823,127 and \$5,000,000 proposed by China International Reinsurance Company Limited ("CIRe") and SINO-RE Reinsurance Brokers Limited ("SINO-RE") and payable to their then shareholders. In this connection, a total of \$85,823,127 was distributed as dividend in specie by CIRe. The remaining amount was paid by cash during 2000.

### 11 EARNINGS PER SHARE

#### (a) Basic earnings per share

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

The calculation of basic earnings per share for 2001 is based on the consolidated profit attributable to shareholders for the year ended 31 December 2001 of \$230,228,994 divided by the weighted average number of 981,350,403 shares, assumed to be in issue during the year.

**11 EARNINGS PER SHARE (Continued)****(a) Basic earnings per share (Continued)**

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

**(b) Diluted earnings per share**

The calculation of diluted earnings per share for 2001 is based on the consolidated profit attributable to shareholders of \$230,228,994 and the weighted average number of shares of 994,571,934 shares after adjusting for the effects of all dilutive potential ordinary shares.

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

**(c) Reconciliations**

|  | <b>2001</b>               | 2000                      |
|--|---------------------------|---------------------------|
|  | <b>Number of</b>          | Number of                 |
|  | <b>shares</b>             | shares                    |
| Weighted average number of shares used in calculating basic earnings per share   | <b>981,350,403</b>        | 781,989,699               |
| Deemed issue of shares for no consideration arising from share options           | <b>13,221,531</b>         | 897,314                   |
| Weighted average number of shares used in calculating diluted earnings per share | <b><u>994,571,934</u></b> | <b><u>782,887,013</u></b> |

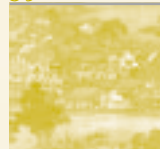
**12 SEGMENT REPORTING**

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.

**(a) Business segments**

The Group comprises the following main business segments:

- Non-life business comprises non-proportional and proportional businesses.
- Life business comprises direct and reinsurance of life businesses.
- Insurance intermediaries business comprises reinsurance brokerage and agency and consultancy businesses.



NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

|  | Non-life proportional |                    | Non-life non-proportional |                    | Total non-life     |                    | Life             |                  | Insurance intermediaries |                  | Inter-segment elimination |                  | Unallocated |          | 2001                 | 2000                 |
|--|-----------------------|--------------------|---------------------------|--------------------|--------------------|--------------------|------------------|------------------|--------------------------|------------------|---------------------------|------------------|-------------|----------|----------------------|----------------------|
|  | 2001                  | 2000               | 2001                      | 2000               | 2001               | 2000               | 2001             | 2000             | 2001                     | 2000             | 2001                      | 2000             | 2001        | 2000     |                      |                      |
|  | \$                    | \$                 | \$                        | \$                 | \$                 | \$                 | \$               | \$               | \$                       | \$               | \$                        | \$               | \$          | \$       | \$                   | \$                   |
| Revenue from external customers                              | 613,973,194           | 531,927,060        | 197,704,752               | 146,175,134        | 811,677,946        | 678,102,194        | 7,095,743        | 5,350,363        | 11,618,164               | 7,591,722        | —                         | —                | —           | —        | 830,391,853          | 691,044,279          |
| Inter-segment revenue  | —                     | —                  | —                         | —                  | —                  | —                  | —                | —                | 1,031,264                | 625,000          | (1,031,264)               | (625,000)        | —           | —        | —                    | —                    |
| <b>Total</b>   | <b>613,973,194</b>    | <b>531,927,060</b> | <b>197,704,752</b>        | <b>146,175,134</b> | <b>811,677,946</b> | <b>678,102,194</b> | <b>7,095,743</b> | <b>5,350,363</b> | <b>12,649,428</b>        | <b>8,216,722</b> | <b>(1,031,264)</b>        | <b>(625,000)</b> | <b>—</b>    | <b>—</b> | <b>830,391,853</b>   | <b>691,044,279</b>   |
| Segment result   | (20,725,534)          | (55,674,606)       | 21,451,391                | 128,641,153        | 725,857            | 72,966,547         | 1,680,477        | 208,579          | 9,459,338                | 6,389,649        | —                         | —                | —           | —        | 11,865,672           | 79,564,775           |
| Inter-segment transactions                                   | —                     | —                  | —                         | —                  | —                  | —                  | 8,757            | 4,893            | (1,031,264)              | (625,000)        | —                         | —                | —           | —        | (1,022,507)          | (620,107)            |
| Contribution from operations                                 | (20,725,534)          | (55,674,606)       | 21,451,391                | 128,641,153        | 725,857            | 72,966,547         | 1,689,234        | 213,472          | 8,428,074                | 5,764,649        | —                         | —                | —           | —        | 10,843,165           | 78,944,668           |
| Unallocated operating income and expenses                    |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | 247,194,752          | 39,869,823           |
| Profit from operations                                       |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | 258,037,917          | 118,814,491          |
| Finance costs  |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | (405,812)            | —                    |
| Share of (losses)/profits less profits/(losses) of associate | (2,561,949)           | —                  | —                         | —                  | —                  | —                  | —                | —                | 414,550                  | —                | —                         | —                | —           | —        | (2,147,399)          | —                    |
| Taxation   |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | (37,850,149)         | (1,084,847)          |
| Minority interests   |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | 12,594,437           | —                    |
| Profit attributable to shareholders                          |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | 230,228,994          | 117,729,644          |
| Depreciation and amortisation for the year                   |                       |                    |                           |                    | 910,981            | 898,713            | 3,368,944        | —                | 433,886                  | 52,432           |                           |                  |             |          |                      |                      |
| Segment assets   |                       |                    |                           |                    | 2,100,187,273      | 1,944,903,966      | 500,134,888      | 19,875,784       | 19,587,981               | 15,038,965       | —                         | —                | —           | —        | 2,619,910,142        | 1,979,818,715        |
| Investment in associates                                     |                       |                    |                           |                    | 211,217,083        | —                  | —                | —                | 6,341,597                | —                | —                         | —                | —           | —        | 217,558,680          | —                    |
| Unallocated assets   |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | 1,005,566,527        | 121,567,213          |
| <b>Total assets</b>  |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | <b>3,843,035,349</b> | <b>2,101,385,928</b> |
| Segment liabilities  |                       |                    |                           |                    | 1,214,103,812      | 1,138,524,290      | 39,468,067       | 4,314,529        | 1,162,601                | 599,430          | —                         | —                | —           | —        | 1,254,734,480        | 1,143,438,249        |
| Unallocated liabilities                                      |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | 290,000,081          | 2,654,656            |
| <b>Total liabilities</b>                                     |                       |                    |                           |                    |                    |                    |                  |                  |                          |                  |                           |                  |             |          | <b>1,544,734,561</b> | <b>1,146,092,905</b> |
| Capital expenditure incurred during the year                 |                       |                    |                           |                    | 1,850,948          | 3,717,273          | 8,523,461        | —                | 32,038                   | 511,853          |                           |                  |             |          |                      |                      |

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## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 12 SEGMENT REPORTING (Continued)

#### (b) Geographical Segments

In presenting information by major geographical segment, segment revenue is based on the geographical location of customers. Segments assets and capital expenditure are based on the geographical location of the operations.

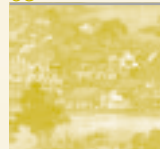
|  | Hong Kong and Macau |               | The People's Republic of<br>China ("PRC") (other than<br>Hong Kong and Macau) |            | Japan      |            | Europe      |            | Rest of Asia |             |
|--|---------------------|---------------|---|------------|------------|------------|-------------|------------|--------------|-------------|
|  | 2001                | 2000          | 2001  | 2000       | 2001       | 2000       | 2001        | 2000       | 2001         | 2000        |
|  | \$                  | \$            | \$  | \$         | \$         | \$         | \$          | \$         | \$           | \$          |
| Revenue from<br>external<br>customers                    | 343,373,316         | 290,516,522   | 81,878,098  | 60,570,473 | 51,101,995 | 57,607,210 | 123,757,659 | 98,926,310 | 183,054,161  | 143,389,321 |
| Segment<br>assets  | 3,366,293,809       | 2,101,385,928 | 476,741,540   | —          | —          | —          | —           | —          | —            | —           |
| Capital<br>expenditure<br>incurred<br>during<br>the year | 4,566,500           | 6,028,509     | 8,523,461   | —          | —          | —          | —           | —          | —            | —           |



## 13 FIXED ASSETS

## (a) The Group

|                                  | Land and<br>buildings<br>\$ | Furniture<br>and fixtures<br>\$ | Computer<br>equipment<br>\$ | Motor<br>vehicles<br>\$ | Subtotal<br>\$     | Investment<br>properties<br>\$ | Total<br>\$        |
|----------------------------------|-----------------------------|---------------------------------|-----------------------------|-------------------------|--------------------|--------------------------------|--------------------|
| <b>Cost or valuation:</b>        |                             |                                 |                             |                         |                    |                                |                    |
| At 1 January 2001                | 140,302,258                 | 11,361,946                      | 7,992,787                   | 647,000                 | 160,303,991        | 122,870,000                    | 283,173,991        |
| Additions                        | —                           | 3,122,183                       | 4,255,633                   | 5,712,145               | 13,089,961         | —                              | 13,089,961         |
| Disposals                        | —                           | (74,286)                        | (411,342)                   | (647,000)               | (1,132,628)        | —                              | (1,132,628)        |
| Deficit on revaluation           | —                           | —                               | —                           | —                       | —                  | (7,920,280)                    | (7,920,280)        |
| Exchange difference              | —                           | —                               | (419)                       | —                       | (419)              | —                              | (419)              |
| At 31 December 2001              | <u>140,302,258</u>          | <u>14,409,843</u>               | <u>11,836,659</u>           | <u>5,712,145</u>        | <u>172,260,905</u> | <u>114,949,720</u>             | <u>287,210,625</u> |
| <b>Representing:</b>             |                             |                                 |                             |                         |                    |                                |                    |
| Cost                             | 140,302,258                 | 14,409,843                      | 11,836,659                  | 5,712,145               | 172,260,905        | —                              | 172,260,905        |
| Valuation - 2001                 | —                           | —                               | —                           | —                       | —                  | 114,949,720                    | 114,949,720        |
|                                  | <u>140,302,258</u>          | <u>14,409,843</u>               | <u>11,836,659</u>           | <u>5,712,145</u>        | <u>172,260,905</u> | <u>114,949,720</u>             | <u>287,210,625</u> |
| <b>Accumulated depreciation:</b> |                             |                                 |                             |                         |                    |                                |                    |
| At 1 January 2001                | 79,646,154                  | 8,063,352                       | 6,685,808                   | 647,000                 | 95,042,314         | —                              | 95,042,314         |
| Charge for the year              | 891,188                     | 921,824                         | 730,991                     | 186,439                 | 2,730,442          | —                              | 2,730,442          |
| Written back on disposal         | —                           | (11,882)                        | (389,475)                   | (647,000)               | (1,048,357)        | —                              | (1,048,357)        |
| Exchange difference              | —                           | —                               | (252)                       | —                       | (252)              | —                              | (252)              |
| At 31 December 2001              | <u>80,537,342</u>           | <u>8,973,294</u>                | <u>7,027,072</u>            | <u>186,439</u>          | <u>96,724,147</u>  | <u>—</u>                       | <u>96,724,147</u>  |
| <b>Net book value:</b>           |                             |                                 |                             |                         |                    |                                |                    |
| At 31 December 2001              | <u>59,764,916</u>           | <u>5,436,549</u>                | <u>4,809,587</u>            | <u>5,525,706</u>        | <u>75,536,758</u>  | <u>114,949,720</u>             | <u>190,486,478</u> |
| At 31 December 2000              | <u>60,656,104</u>           | <u>3,298,594</u>                | <u>1,306,979</u>            | <u>—</u>                | <u>65,261,677</u>  | <u>122,870,000</u>             | <u>188,131,677</u> |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 13 FIXED ASSETS (Continued)

#### (b) The Company

|                                  | Furniture<br>and fixtures<br>\$ | Motor<br>vehicles<br>\$ | Total<br>\$      |
|----------------------------------|---------------------------------|-------------------------|------------------|
| <b>Cost:</b>                     |                                 |                         |                  |
| At 1 January 2001                | 1,799,383                       | —                       | 1,799,383        |
| Additions                        | 1,012,820                       | 1,670,694               | 2,683,514        |
| Disposals                        | (68,856)                        | —                       | (68,856)         |
|                                  | <u>2,743,347</u>                | <u>1,670,694</u>        | <u>4,414,041</u> |
| At 31 December 2001              | <u>2,743,347</u>                | <u>1,670,694</u>        | <u>4,414,041</u> |
| <b>Accumulated depreciation:</b> |                                 |                         |                  |
| At 1 January 2001                | 80,686                          | —                       | 80,686           |
| Charge for the year              | 504,496                         | 101,161                 | 605,657          |
| Written back on disposal         | (7,942)                         | —                       | (7,942)          |
|                                  | <u>577,240</u>                  | <u>101,161</u>          | <u>678,401</u>   |
| At 31 December 2001              | <u>577,240</u>                  | <u>101,161</u>          | <u>678,401</u>   |
| <b>Net book value:</b>           |                                 |                         |                  |
| At 31 December 2001              | <u>2,166,107</u>                | <u>1,569,533</u>        | <u>3,735,640</u> |
| At 31 December 2000              | <u>1,718,697</u>                | <u>—</u>                | <u>1,718,697</u> |

## 13 FIXED ASSETS (Continued)

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

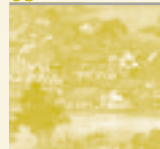
|                      | The Group          |                    | The Company |          |
|----------------------|--------------------|--------------------|-------------|----------|
|                      | 2001               | 2000               | 2001        | 2000     |
|                      | \$                 | \$                 | \$          | \$       |
| In Hong Kong         |                    |                    |             |          |
| — Long leases        | 118,337,295        | 125,745,411        | —           | —        |
| — Medium-term leases | 12,557,621         | 13,000,693         | —           | —        |
| Outside Hong Kong    |                    |                    |             |          |
| — Long leases        | 38,479,720         | 39,440,000         | —           | —        |
| — Medium-term leases | 5,340,000          | 5,340,000          | —           | —        |
|                      | <u>174,714,636</u> | <u>183,526,104</u> | <u>—</u>    | <u>—</u> |

(d) Investment properties of the Group were revalued on an open market value basis at 31 December 2001 by an independent firm of surveyors, RHL Appraisal Ltd., who have among their staff Associates of the Hong Kong Institute of Surveyors. The revaluation deficit of \$7,920,280 has been debited to the profit and loss account (note 4).

(e) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually reviewed annually to reflect market rentals. None of the leases includes contingent rentals. The gross carrying amounts of investment properties of the Group held for use in operating leases were \$76,270,000 (2000: \$82,270,000).

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

|                            | 2001             | 2000             |
|----------------------------|------------------|------------------|
|                            | \$               | \$               |
| Within 1 year              | 3,486,740        | 3,877,522        |
| After 1 but within 5 years | <u>1,366,280</u> | <u>1,981,355</u> |
|                            | <u>4,853,020</u> | <u>5,858,877</u> |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 14 GOODWILL

|   | \$                 |
|---|--------------------|
| <b>Cost:</b>                                    |                    |
| At 1 January 2001                               | —                  |
| Addition arising on acquisition of a subsidiary | <u>186,484,691</u> |
| At 31 December 2001                             | <u>186,484,691</u> |
| <b>Accumulated amortisation:</b>                |                    |
| At 1 January 2001                               | —                  |
| Amortisation for the year                       | <u>3,108,078</u>   |
| At 31 December 2001                             | <u>3,108,078</u>   |
| <b>Carrying amount:</b>                         |                    |
| At 31 December 2001                             | <u>183,376,613</u> |
| At 31 December 2000                             | <u>—</u>           |

Goodwill is amortised on a straight-line basis over twenty years. The amortisation of goodwill for the year is included in “administrative expenses” in the consolidated profit and loss account.

### 15 INVESTMENTS IN SUBSIDIARIES

|                          | 2001               | 2000              |
|--------------------------|--------------------|-------------------|
|                          | \$                 | \$                |
| Unlisted shares, at cost | <u>455,395,586</u> | <u>33,542,008</u> |

## 15 INVESTMENTS IN SUBSIDIARIES (Continued)

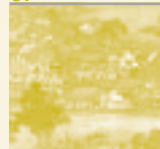
Details of the Company's subsidiaries at the date of this report are as follows:

| Name of company  | Place of incorporation and operation         | Particulars of issued and paid up share capital        | Proportion of ownership interest |          | Principal activities    |
|--|--|--|----------------------------------|----------|-------------------------|
|  |  |  | Direct                           | Indirect |                         |
| China International Reinsurance Company Limited<br>(Note (iii))    | Hong Kong                                    | Ordinary<br>\$180,000,000<br>Deferred<br>\$600,000,000 | —                                | 100      | Reinsurance business    |
| SINO-RE Reinsurance Brokers Limited<br>(Note (iii))                | Hong Kong                                    | Ordinary<br>\$4,000,000<br>Deferred<br>\$1,000,000     | —                                | 100      | Insurance broking       |
| The Tai Ping Life Insurance Company, Limited ("TPL")<br>(Note (i)) | PRC  | RMB500,000,000   | —                                | 50.05    | Life insurance business |
| Quicken Assets Limited   | British Virgin Islands ("BVI")/<br>Hong Kong | US\$1  | 100                              | —        | Property holding        |
| Effectual Assets Limited   | BVI  | US\$20   | 100                              | —        | Investment holding      |
| Influential Assets Limited   | BVI  | US\$20   | 100                              | —        | Investment holding      |
| Share China Assets Limited<br>(Note (ii))                          | BVI  | US\$1  | 100                              | —        | Investment holding      |

## Notes:

- (i) During the year the Group acquired a 62.5% interest in TPL for a consideration of approximately \$522.4 million which was satisfied by the issuance and allotment of 78.5 million shares credited as fully paid and a cash payment of \$280.0 million. As a result, the Group's profit for the year and the net assets as at the year end both decreased by \$29.7 million.

12.45% of the 62.5% interest in TPL was intended to be held temporarily and was therefore stated in the accounts as other investments. The 12.45% was subsequently disposed of to an independent third party for a consideration of approximately US\$44 million (equivalent to approximately \$343.2 million), contributing a profit of approximately \$210.3 million.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 15 INVESTMENTS IN SUBSIDIARIES (Continued)

- (ii) During the year, the Company acquired a 42.5% shareholding in The Tai Ping Insurance Company, Limited ("TPI"). The directors are of the opinion that the Group's control of 12.45% of the 42.5% interest acquired is intended to be held temporarily; it is therefore not equity accounted for and is excluded from consolidation. A special purpose vehicle, Share China Assets Limited ("Share China") was established to hold the 12.45% interest in TPI. Thus, the 12.45% interest in TPI, which was purchased for \$88.7 million, settled by the issuance and allotment of shares at an agreed value of \$70.5 million and a cash payment of \$18.2 million, is recorded as an amount due from an unconsolidated subsidiary (note 18(a)) and the equity interest in Share China is stated in the consolidated accounts as other investments at fair value.

The remaining 30.05% interest in TPI is equity accounted for in the consolidated accounts as this portion is not held exclusively with a view to disposal in the near future.

- (iii) Holders of the non-voting deferred shares in CIRE or SINO-RE are not entitled to share profits, receive notice of or attend or vote at any general meeting of these companies. On the winding-up of these companies, the holders of the non-voting deferred shares are not entitled to the distribution of the net assets of these companies for the first \$100 billion; the balance of net assets, if any, over the first \$100 billion shall be distributed among the holders of the ordinary shares and non-voting deferred shares pari passu among themselves in proportion to their respective shareholdings.

### 16 INTEREST IN ASSOCIATES

|                          | The Group          |          | The Company        |          |
|--------------------------|--------------------|----------|--------------------|----------|
|                          | 2001               | 2000     | 2001               | 2000     |
|                          | \$                 | \$       | \$                 | \$       |
| Unlisted shares, at cost | —                  | —        | 220,142,976        | —        |
| Share of net assets      | 143,452,047        | —        | —                  | —        |
| Goodwill                 | 74,106,633         | —        | —                  | —        |
|                          | <u>217,558,680</u> | <u>—</u> | <u>220,142,976</u> | <u>—</u> |

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

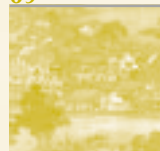
| Name of associate                                | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest |                     | Principal activities            |
|--|----------------------------|--------------------------------------|---|----------------------------------|---------------------|---------------------------------|
|  |                            |                                      |   | Group's effective interest       | Held by the Company |                                 |
| The Tai Ping Insurance Company, Limited          | Incorporated               | PRC                                  | RMB<br>500,000,000                        | 30.05%                           | 30.05%              | Non-life insurance              |
| Huatai Insurance Agency & Consultant Service Ltd | Incorporated               | PRC                                  | RMB<br>23,281,000                         | 25%                              | 25%                 | Insurance agency and consultant |



## 17 INVESTMENTS IN SECURITIES

## (a) The Group

|  | Central<br>governments<br>and<br>central banks | Public<br>sector<br>entities | Banks<br>and other<br>financial<br>institutions | Corporate<br>entities | Others            | Total                |
|--|--|------------------------------|---|-----------------------|-------------------|----------------------|
| <b>At 31 December 2001</b>   |  |                              |   |                       |                   |                      |
| <b>Held-to-maturity<br/>debt securities</b>  |  |                              |   |                       |                   |                      |
| Listed:  |  |                              |   |                       |                   |                      |
| — in Hong Kong   | —  | —                            | 35,666,608                                      | 8,500,000             | —                 | 44,166,608           |
| — outside Hong Kong  | 70,315,119                                     | 70,798,337                   | 258,356,365                                     | 340,652,179           | 21,529,413        | 761,651,413          |
|  | 70,315,119                                     | 70,798,337                   | 294,022,973                                     | 349,152,179           | 21,529,413        | 805,818,021          |
| Unlisted   | 51,371,614                                     | 15,014,928                   | 63,547,989                                      | 71,481,786            | —                 | 201,416,317          |
|  | <u>121,686,733</u>                             | <u>85,813,265</u>            | <u>357,570,962</u>                              | <u>420,633,965</u>    | <u>21,529,413</u> | <u>1,007,234,338</u> |
| <b>Other investments</b>   |  |                              |   |                       |                   |                      |
| Listed debt securities   |  |                              |   |                       |                   |                      |
| — outside Hong Kong  | 1,958,486                                      | 8,427,900                    | 39,230,394                                      | 121,468,289           | —                 | 171,085,069          |
| Listed equity securities   |  |                              |   |                       |                   |                      |
| — in Hong Kong   | —  | —                            | 14,317,220                                      | 166,651,122           | 10,156,150        | 191,124,492          |
| — outside Hong Kong  | —  | —                            | 2,382,513                                       | 13,686,581            | —                 | 16,069,094           |
| Listed unit trusts and<br>mutual funds   |  |                              |   |                       |                   |                      |
| — outside Hong Kong  | —  | —                            | —   | 17,856,311            | —                 | 17,856,311           |
| Unlisted debt securities   |  |                              |   |                       |                   |                      |
|  | —  | —                            | 20,234,000                                      | 7,828,860             | —                 | 28,062,860           |
| Unlisted equity securities   |  |                              |   |                       |                   |                      |
|  | —  | —                            | —   | 9,681,479             | —                 | 9,681,479            |
|  | <u>1,958,486</u>                               | <u>8,427,900</u>             | <u>76,164,127</u>                               | <u>337,172,642</u>    | <u>10,156,150</u> | <u>433,879,305</u>   |
|  | <u>123,645,219</u>                             | <u>94,241,165</u>            | <u>433,735,089</u>                              | <u>757,806,607</u>    | <u>31,685,563</u> | <u>1,441,113,643</u> |
| Market value of listed<br>securities (including<br>listed held-to-maturity<br>securities maturing<br>within one year of<br>the balance sheet date) |  |                              |   |                       |                   |                      |
|  | <u>75,910,676</u>                              | <u>82,933,700</u>            | <u>350,629,063</u>                              | <u>646,726,913</u>    | <u>31,676,830</u> | <u>1,187,877,182</u> |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 17 INVESTMENTS IN SECURITIES (Continued)

#### (a) The Group (Continued)

|   | Central governments and central banks | Public sector entities | Banks and other financial institutions | Corporate entities | Others     | Total         |
|---|---------------------------------------|------------------------|--|--------------------|------------|---------------|
| <b>At 31 December 2000</b>  |                                       |                        |  |                    |            |               |
| <b>Held-to-maturity debt securities</b>   |                                       |                        |  |                    |            |               |
| Listed:   |                                       |                        |  |                    |            |               |
| — in Hong Kong  | 11,690,095                            | —                      | 82,259,195                             | 8,500,000          | —          | 102,449,290   |
| — outside Hong Kong   | 46,759,433                            | 15,210,431             | 130,222,374                            | 358,091,249        | 6,052,519  | 556,336,006   |
|   | 58,449,528                            | 15,210,431             | 212,481,569                            | 366,591,249        | 6,052,519  | 658,785,296   |
| Unlisted  | 51,337,289                            | —                      | 50,734,536                             | 61,812,075         | —          | 163,883,900   |
|   | 109,786,817                           | 15,210,431             | 263,216,105                            | 428,403,324        | 6,052,519  | 822,669,196   |
| <b>Other investments</b>  |                                       |                        |  |                    |            |               |
| Listed debt securities  |                                       |                        |  |                    |            |               |
| — outside Hong Kong   | —                                     | 19,967,610             | 30,473,125                             | 60,840,000         | —          | 111,280,735   |
| Listed equity securities  |                                       |                        |  |                    |            |               |
| — in Hong Kong  | —                                     | —                      | 5,368,500                              | 134,001,228        | 15,655,893 | 155,025,621   |
| — outside Hong Kong   | —                                     | —                      | 2,116,954                              | 25,968,329         | —          | 28,085,283    |
| Listed unit trusts and mutual funds   |                                       |                        |  |                    |            |               |
| — outside Hong Kong   | —                                     | —                      | —                                      | 23,464,015         | —          | 23,464,015    |
| Unlisted debt securities  |                                       |                        |  |                    |            |               |
|   | —                                     | —                      | —                                      | —                  | —          | —             |
| Unlisted equity securities  |                                       |                        |  |                    |            |               |
|   | —                                     | —                      | —                                      | 9,567,675          | —          | 9,567,675     |
|   | —                                     | 19,967,610             | 37,958,579                             | 253,841,247        | 15,655,893 | 327,423,329   |
|   | 109,786,817                           | 35,178,041             | 301,174,684                            | 682,244,571        | 21,708,412 | 1,150,092,525 |
| Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date) |                                       |                        |  |                    |            |               |
|   | 60,357,960                            | 35,133,830             | 245,943,845                            | 630,565,792        | 21,344,375 | 993,345,802   |

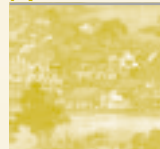
The held-to-maturity debt securities include an amount of \$154,877,646 (2000: \$97,358,311) which is maturing within one year.

## 17 INVESTMENTS IN SECURITIES (Continued)

## (b) The Company

|                                   | 2001<br>\$         | 2000<br>\$        |
|-----------------------------------|--------------------|-------------------|
| <b>Other investments</b>          |                    |                   |
| Listed debt securities            |                    |                   |
| — outside Hong Kong               | 76,162,675         | 28,118,610        |
| Listed equity securities          |                    |                   |
| — in Hong Kong                    | 10,625,000         | 15,200,000        |
| — outside Hong Kong               | 1,098,132          | —                 |
| Unlisted debt securities          | 28,062,860         | —                 |
| Unlisted equity securities        | 8                  | —                 |
|                                   | <u>115,948,675</u> | <u>43,318,610</u> |
| Market value of listed securities | <u>87,885,807</u>  | <u>43,318,610</u> |

The Group's unlisted equity securities include an investment of \$8,000,000 (2000: \$8,000,000), representing a 20% (2000: 20%) equity interest in Dragon Jade Industrial District Development (Shenzhen) Co., Ltd., a joint venture company established in the PRC engaged in the development and operation of an industrial property complex in Shenzhen, the PRC. In the opinion of the directors, the Group is not in a position to exercise significant influence over the financial and operating policies of that company and accordingly, the equity accounting method has not been adopted.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 18 AMOUNTS DUE FROM/(TO) GROUP COMPANIES

#### (a) Due from group companies

|   | The Group         |          | The Company        |                    |
|---|-------------------|----------|--------------------|--------------------|
|   | 2001              | 2000     | 2001               | 2000               |
|   | \$                | \$       | \$                 | \$                 |
| Amount due from the immediate holding company | 781,914           | —        | 781,914            | —                  |
| Amount due from an unconsolidated subsidiary  | 88,699,137        | —        | 88,699,137         | —                  |
| Amounts due from subsidiaries                 | —                 | —        | 305,379,539        | 346,380,511        |
| Amounts due from an associate                 | 125,416           | —        | 125,416            | —                  |
| Amount due from a fellow subsidiary           | 27,645            | —        | —                  | —                  |
|   | <u>89,634,112</u> | <u>—</u> | <u>394,986,006</u> | <u>346,380,511</u> |

#### (b) Due to group companies

|   | The Group         |               | The Company    |                   |
|---|-------------------|---------------|----------------|-------------------|
|   | 2001              | 2000          | 2001           | 2000              |
|   | \$                | \$            | \$             | \$                |
| Amount due to the ultimate holding company  | 22,203,841        | —             | —              | —                 |
| Amount due to the immediate holding company | —                 | 4,000         | —              | —                 |
| Amount due to a subsidiary                  | —                 | —             | —              | 70,069,984        |
| Amount due to a fellow subsidiary           | 974,307           | 7,632         | 974,307        | 7,632             |
|   | <u>23,178,148</u> | <u>11,632</u> | <u>974,307</u> | <u>70,077,616</u> |

The above amounts due from/(to) group companies are unsecured, interest-free and repayable on demand.

## 19 TRADE AND OTHER RECEIVABLES

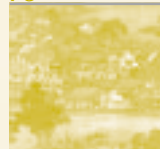
|  | The Group                 |                           | The Company             |                       |
|--|---------------------------|---------------------------|-------------------------|-----------------------|
|  | 2001                      | 2000                      | 2001                    | 2000                  |
|  | \$                        | \$                        | \$                      | \$                    |
| Amounts due from cedants and retrocessionaires | <b>83,626,348</b>         | 96,576,194                | —                       | —                     |
| Deposits retained by cedants                   | <b>95,682,015</b>         | 112,143,943               | —                       | —                     |
| Other debtors, deposits and prepayments        | <b>33,968,251</b>         | 52,201,600                | <b>3,101,703</b>        | 305,578               |
| Loans and advances                             | <b>43,381,823</b>         | 44,697,624                | —                       | —                     |
|  | <b><u>256,658,437</u></b> | <b><u>305,619,361</u></b> | <b><u>3,101,703</u></b> | <b><u>305,578</u></b> |

All of the trade and other receivables, apart from \$21,313,926 (2000: \$21,100,214) included in deposits retained by cedants, are expected to be recovered within one year.

Amounts due from cedants and retrocessionaires include amounts due from fellow subsidiaries of \$18,632,378 (2000: \$18,319,984) which are trade related in nature.

Loans and advances are repayable with the following terms:

|                                 | 2001                     | 2000                     | Interest rate | Repayment term          |
|---------------------------------|--------------------------|--------------------------|---------------|-------------------------|
|                                 | \$                       | \$                       |               |                         |
| Secured mortgage loans:         |                          |                          |               |                         |
| — to staff members of the Group | <b>106,864</b>           | 111,148                  | 3% to prime   | 20 years by instalments |
| Unsecured loans:                |                          |                          |               |                         |
| — to a fellow subsidiary        | <b>4,830,000</b>         | 4,830,000                | free          | on demand               |
| — to third parties              | <b>38,444,959</b>        | 39,756,476               | 8%            | 10 years                |
|                                 | <b><u>43,381,823</u></b> | <b><u>44,697,624</u></b> |               |                         |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 19 TRADE AND OTHER RECEIVABLES (Continued)

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

|   | The Group         |                   | The Company |            |
|---|-------------------|-------------------|-------------|------------|
|   | 2001<br>\$        | 2000<br>\$        | 2001<br>\$  | 2000<br>\$ |
| Current                                       | 58,722,033        | 60,513,690        | —           | —          |
| More than 3 months but<br>less than 12 months | 19,238,455        | 31,258,348        | —           | —          |
| More than 12 months                           | 5,665,860         | 4,804,156         | —           | —          |
|   | <u>83,626,348</u> | <u>96,576,194</u> | <u>—</u>    | <u>—</u>   |

Debts are generally due within 90 days from the date of billing, but there are no definite payment terms in accordance with the insurance industry practices.

### 20 PLEDGED DEPOSITS AT BANK

The Group has pledged bank deposits of \$49,420,613 (2000: \$17,522,378) to banks to secure letters of credit issued by the Group, including the one used for the investment in the Lloyd's corporate vehicle (note 33(i)).

### 21 DEPOSITS AT BANK WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

A subsidiary of the Group has placed \$99,397,045 (2000: \$Nil) with banks as a capital guarantee fund, pursuant to the relevant PRC insurance rules and regulations. The fund can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiary cannot meet the statutory solvency requirements or goes into liquidation.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 22 CASH AND CASH EQUIVALENTS

|  | The Group                   |                    | The Company               |                   |
|--|-----------------------------|--------------------|---------------------------|-------------------|
|  | 2001                        | 2000               | 2001                      | 2000              |
|  | \$                          | \$                 | \$                        | \$                |
| Deposits with banks and other financial institutions with original maturity less than three months | <b>1,186,564,157</b>        | 350,437,049        | <b>550,206,035</b>        | 16,585,856        |
| Cash at bank and in hand   | <b>128,348,459</b>          | 89,115,517         | <b>1,161,417</b>          | 362,958           |
|  | <b><u>1,314,912,616</u></b> | <u>439,552,566</u> | <b><u>551,367,452</u></b> | <u>16,948,814</u> |

### 23 INSURANCE FUNDS

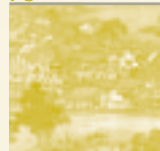
#### The Group

|                                      | 2001                      | 2000               |
|--------------------------------------|---------------------------|--------------------|
|                                      | \$                        | \$                 |
| <b>Non-life reinsurance business</b> |                           |                    |
| Proportional                         | <b>312,328,277</b>        | 298,410,100        |
| Non-proportional                     | <b>210,211,689</b>        | 155,053,378        |
|                                      | <b><u>522,539,966</u></b> | <u>453,463,478</u> |

Included in insurance funds is an amount of \$176,014,024 (2000: \$169,629,324) which is expected to be transferred to the profit and loss account within one year.

### 24 LIFE ASSURANCE FUNDS

All life assurance funds are expected to be transferred to the profit and loss account within one year.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 25 PROVISION FOR OUTSTANDING CLAIMS

#### The Group

|                               | Claims<br>reported<br>\$  | Incurred but<br>not reported<br>\$ | Total<br>\$               |
|-------------------------------|---------------------------|------------------------------------|---------------------------|
| <b>2001</b>                   |                           |                                    |                           |
| Gross claims                  | 632,963,647               | 149,246,132                        | 782,209,779               |
| Less: Reinsurers' share       | <u>(143,918,165)</u>      | <u>(15,173,612)</u>                | <u>(159,091,777)</u>      |
|                               | <b><u>489,045,482</u></b> | <b><u>134,072,520</u></b>          | <b><u>623,118,002</u></b> |
| Represented by:               |                           |                                    |                           |
| Non-life reinsurance business |                           |                                    |                           |
| — Proportional                | 271,430,821               | 45,043,847                         | 316,474,668               |
| — Non-proportional            | <u>217,614,661</u>        | <u>89,028,673</u>                  | <u>306,643,334</u>        |
|                               | <b><u>489,045,482</u></b> | <b><u>134,072,520</u></b>          | <b><u>623,118,002</u></b> |
| <b>2000</b>                   |                           |                                    |                           |
| Gross claims                  | 591,282,614               | 195,523,687                        | 786,806,301               |
| Less: Reinsurers' share       | <u>(128,092,969)</u>      | <u>(25,513,994)</u>                | <u>(153,606,963)</u>      |
|                               | <b><u>463,189,645</u></b> | <b><u>170,009,693</u></b>          | <b><u>633,199,338</u></b> |
| Represented by:               |                           |                                    |                           |
| Non-life reinsurance business |                           |                                    |                           |
| — Proportional                | 239,061,484               | 61,622,973                         | 300,684,457               |
| — Non-proportional            | <u>224,128,161</u>        | <u>108,386,720</u>                 | <u>332,514,881</u>        |
|                               | <b><u>463,189,645</u></b> | <b><u>170,009,693</u></b>          | <b><u>633,199,338</u></b> |

Included in provision for outstanding claims is an amount of \$242,896,000 (2000: \$262,013,000) which is expected to be settled within one year.

Estimates and assumptions have been made in arriving at the reinsurers' share of the provision for outstanding claims. The actual results may be significantly different from that envisaged when these estimates were made.



## 26 TRADE AND OTHER PAYABLES

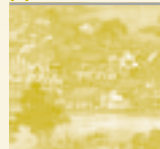
|   | The Group          |                   | The Company       |                  |
|---|--------------------|-------------------|-------------------|------------------|
|   | 2001               | 2000              | 2001              | 2000             |
|   | \$                 | \$                | \$                | \$               |
| Amounts due to cedants and retrocessionaires            | 35,408,217         | 21,086,971        | —                 | —                |
| Deposits retained from retrocessionaires                | 10,928,114         | 11,770,867        | —                 | —                |
| Other creditors, accrued charges and temporary receipts | 57,338,729         | 11,166,888        | 34,315,142        | 2,471,370        |
|   | <b>103,675,060</b> | <b>44,024,726</b> | <b>34,315,142</b> | <b>2,471,370</b> |

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

Amounts due to cedants and retrocessionaires include amounts due to fellow subsidiaries of \$1,175,759 (2000: \$582,308) which are trade related in nature.

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

|  | The Group         |                   | The Company |          |
|--|-------------------|-------------------|-------------|----------|
|  | 2001              | 2000              | 2001        | 2000     |
|  | \$                | \$                | \$          | \$       |
| Current                                    | 28,612,000        | 11,497,000        | —           | —        |
| More than 3 months but less than 12 months | 3,925,000         | 7,908,000         | —           | —        |
| More than 12 months                        | 2,871,217         | 1,681,971         | —           | —        |
|  | <b>35,408,217</b> | <b>21,086,971</b> | <b>—</b>    | <b>—</b> |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 27 DEFERRED TAXATION

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

|   | 2001<br>\$       | 2000<br>\$         |
|---|------------------|--------------------|
| At 1 January  | 315,829          | 3,460,000          |
| Transfer to the profit and loss account (note 6(a)) | <u>(288,084)</u> | <u>(3,144,171)</u> |
| At 31 December                                      | <u>27,745</u>    | <u>315,829</u>     |

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

|  | 2001           |  | 2000           |  |
|--|----------------|--|----------------|--|
|  | Provided<br>\$ | Potential<br>liabilities<br>unprovided<br>\$ | Provided<br>\$ | Potential<br>liabilities<br>unprovided<br>\$ |
| Depreciation allowances in excess<br>of related depreciation | —              | 743,520                                      | —              | 342,776                                      |
| Others   | <u>27,745</u>  | <u>—</u>                                     | <u>315,829</u> | <u>—</u>                                     |
|  | <u>27,745</u>  | <u>743,520</u>                               | <u>315,829</u> | <u>342,776</u>                               |

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

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

## 28 MATURITY PROFILE

## (a) The Group

|  | Repayable<br>on demand<br>\$ | 3 months<br>or less<br>\$ | 1 year<br>or less<br>but over<br>3 months<br>\$ | 5 years<br>or less<br>but over<br>1 year<br>\$ | After<br>5 years<br>\$ | Undated<br>\$     | Total<br>\$          |
|--|------------------------------|---------------------------|---|--|------------------------|-------------------|----------------------|
| <b>2001</b>  |                              |                           |   |  |                        |                   |                      |
| <b>Assets</b>  |                              |                           |   |  |                        |                   |                      |
| Deposits at bank with<br>original maturity<br>more than 3 months   | —                            | —                         | 476,738   | 99,397,419                                     | —                      | —                 | 99,874,157           |
| Deposits at banks and<br>other financial<br>institutions with<br>original maturity<br>less than 3 months | —                            | 1,186,564,157             | —   | —  | —                      | —                 | 1,186,564,157        |
| Certificates of deposit held<br>(under held-to-maturity)   | —                            | —                         | —   | 9,576,666                                      | 10,000,000             | —                 | 19,576,666           |
| Pledged deposits at bank   | —                            | —                         | 32,509,113                                      | 16,911,500                                     | —                      | —                 | 49,420,613           |
| Debt securities<br>(under held-to-maturity)  | —                            | 23,100,464                | 131,777,182                                     | 299,615,369                                    | 533,164,657            | —                 | 987,657,672          |
| Debt securities (under<br>other investments<br>in securities)  | —                            | —                         | —   | 19,183,710                                     | 85,041,825             | 94,922,394        | 199,147,929          |
|  | <u>—</u>                     | <u>1,209,664,621</u>      | <u>164,763,033</u>                              | <u>444,684,664</u>                             | <u>628,206,482</u>     | <u>94,922,394</u> | <u>2,542,241,194</u> |
| <b>2000</b>  |                              |                           |   |  |                        |                   |                      |
| <b>Assets</b>  |                              |                           |   |  |                        |                   |                      |
| Deposits at bank with<br>original maturity<br>more than 3 months   | —                            | 467,421                   | —   | —  | —                      | —                 | 467,421              |
| Deposits at banks and<br>other financial<br>institutions with<br>original maturity<br>less than 3 months | 3,011,843                    | 347,425,206               | —   | —  | —                      | —                 | 350,437,049          |
| Certificates of deposit held<br>(under held-to-maturity)   | —                            | —                         | 15,039,126                                      | —  | —                      | —                 | 15,039,126           |
| Pledged deposits at bank   | —                            | —                         | 17,522,378                                      | —  | —                      | —                 | 17,522,378           |
| Debt securities<br>(under held-to-maturity)  | —                            | 31,479,003                | 73,190,006                                      | 417,415,036                                    | 285,546,025            | —                 | 807,630,070          |
| Debt securities<br>(under other<br>investments<br>in securities)   | —                            | —                         | —   | 8,151,000                                      | 19,967,610             | 83,162,125        | 111,280,735          |
|  | <u>3,011,843</u>             | <u>379,371,630</u>        | <u>105,751,510</u>                              | <u>425,566,036</u>                             | <u>305,513,635</u>     | <u>83,162,125</u> | <u>1,302,376,779</u> |

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 28 MATURITY PROFILE (Continued)

#### (b) The Company

|  | Repayable<br>on demand<br>\$ | 3 months<br>or less<br>\$ | 1 year<br>or less<br>but over<br>3 months<br>\$ | 5 years<br>or less<br>but over<br>1 year<br>\$ | After<br>5 years<br>\$ | Total<br>\$        |
|--|------------------------------|---------------------------|---|--|------------------------|--------------------|
| <b>2001</b>  |                              |                           |   |  |                        |                    |
| <b>Assets</b>  |                              |                           |   |  |                        |                    |
| Deposits at banks<br>and other financial<br>institutions with<br>original maturity<br>less than 3 months | —                            | 550,206,035               | —   | —  | —                      | 550,206,035        |
| Debt securities<br>(under other<br>investments<br>in securities)   | —                            | —                         | —   | 19,183,710                                     | 85,041,825             | 104,225,535        |
|  | <u>—</u>                     | <u>550,206,035</u>        | <u>—</u>  | <u>19,183,710</u>                              | <u>85,041,825</u>      | <u>654,431,570</u> |
| <b>2000</b>  |                              |                           |   |  |                        |                    |
| <b>Assets</b>  |                              |                           |   |  |                        |                    |
| Deposits at banks and other<br>financial institutions<br>with original maturity<br>less than 3 months    | —                            | 16,585,856                | —   | —  | —                      | 16,585,856         |
| Debt securities<br>(under other investments<br>in securities)  | —                            | —                         | —   | 8,151,000                                      | 19,967,610             | 28,118,610         |
|  | <u>—</u>                     | <u>16,585,856</u>         | <u>—</u>  | <u>8,151,000</u>                               | <u>19,967,610</u>      | <u>44,704,466</u>  |

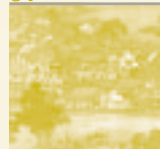
## 29 SHARE CAPITAL

|  | 2001                 |                    | 2000                 |                    |
|--|----------------------|--------------------|----------------------|--------------------|
|  | No. of<br>shares     | \$                 | No. of<br>shares     | \$                 |
| <b>Authorised:</b>                             |                      |                    |                      |                    |
| Ordinary shares of \$0.05 each                 | <u>2,000,000,000</u> | <u>100,000,000</u> | <u>2,000,000,000</u> | <u>100,000,000</u> |
| <b>Issued and fully paid:</b>                  |                      |                    |                      |                    |
| At 1 January                                   | 893,748,000          | 44,687,400         | —                    | —                  |
| Shares issued (a)                              | 371,166,592          | 18,558,330         | 893,748,000          | 44,687,400         |
| Shares issued under<br>share option scheme (b) | <u>7,458,000</u>     | <u>372,900</u>     | <u>—</u>             | <u>—</u>           |
|  | <u>1,272,372,592</u> | <u>63,618,630</u>  | <u>893,748,000</u>   | <u>44,687,400</u>  |

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

**(a) Issuance of shares**

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



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 29 SHARE CAPITAL (Continued)

#### (a) Issuance of shares (Continued)

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

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

- (iv) On 29 June 2000, an aggregate of 178,326,000 newly issued shares together with 118,882,000 shares held by the then existing shareholders were offered for subscription at a price of \$1.43 per share upon the listing of the Company's share on the Stock Exchange. The Group raised approximately \$231,166,322 (including interest income) net of related expenses from the offer.
- (v) Pursuant to the over-allotment option granted by the Company to the global coordinator, BNP Prime Peregrine Securities Limited, as stated in the prospectus of the Company dated 20 June 2000, the global coordinator exercised the option on 14 July 2000, which resulted in an additional issue of 44,580,000 shares of the Company. The additional shares issued represented approximately 5% of the Company's enlarged issued share capital immediately after the share offer and the exercise of the over-allotment option.
- (vi) On 3 May 2001, the Company allotted and issued an aggregate of 47,000,000 shares of \$0.05 each at \$1.68 per share to an independent third party. The amount in excess of the par value of the shares issued net of related expenses was credited to the share premium account.
- (vii) On 14 August 2001, a total of 80,000,000 shares of \$0.05 each at \$2.75 per share were allotted and issued to the immediate holding company. The proceeds were used to finance part of the cost of acquiring the 62.5% equity interest in TPL.
- (viii) Pursuant to a meeting of directors on 15 September 2001, the Company allotted and issued 78,511,955 shares of \$0.05 each at \$3.0875 per share resulting in a total consideration of \$242.4 million to the immediate holding company, as part of the consideration for the acquisition of the 62.5% equity interest in TPL (note 31(b)(i)).

**29 SHARE CAPITAL** *(Continued)***(a) Issuance of shares** *(Continued)*

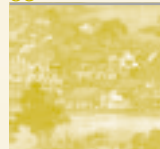
- (ix) On 14 December 2001, a total of 101,789,808 shares of \$0.05 each at \$3.7668 per share were allotted and issued to an independent third party. The proceeds were intended for long term investment in insurance related businesses and for general working capital.
- (x) Pursuant to a meeting of shareholders on 22 December 2001, the Company issued and allotted 63,864,829 shares at the price of \$3.7668 per share to the immediate holding company, as part of the consideration for the acquisition of the 42.5% equity interest in TPI.

The amount in excess of the par value of the above shares issued net of related expenses was credited to the share premium account.

**(b) Share option scheme**

During the year, options were exercised to subscribe for 7,458,000 ordinary shares in the Company at a total consideration of \$7,656,300 of which \$372,900 was credited to share capital and the balance of \$7,283,400 was credited to the share premium account. At 31 December 2001, the outstanding options were as follows:

| <b>Date option granted</b> | <b>Period during which options exercisable</b> | <b>Exercise price</b> | <b>Number of options outstanding at the year end</b> |
|----------------------------|--|-----------------------|--|
| September 2000             | September 2000 to September 2010               | \$1.11                | 16,630,000   |
| February 2001              | February 2001 to February 2011                 | \$0.95                | 2,173,000  |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 30 RESERVES

#### (a) The Group

|  | Share<br>premium and<br>capital reserve<br>\$ | Exchange<br>reserves<br>\$ | Retained<br>profits/<br>(accumulated<br>losses)<br>\$ | Total<br>\$          |
|--|---|----------------------------|---|----------------------|
| At 1 January 2001  | 850,029,420                                   | —                          | 60,576,203  | 910,605,623          |
| Dividends approved in<br>respect of the previous<br>year ( <i>note 10(b)</i> )             | —   | —                          | (35,982,560)  | (35,982,560)         |
| Shares issued  | 1,147,341,567                                 | —                          | —   | 1,147,341,567        |
| Exchange differences<br>on translation of<br>accounts of a subsidiary<br>outside Hong Kong | —   | (2,101,156)                | —   | (2,101,156)          |
| Profit for the year  | —   | —                          | 230,228,994   | 230,228,994          |
| Dividends declared<br>in respect of the<br>current year ( <i>note 10(a)</i> )              | —   | —                          | (15,410,310)  | (15,410,310)         |
| At 31 December 2001  | <u>1,997,370,987</u>                          | <u>(2,101,156)</u>         | <u>239,412,327</u>                                    | <u>2,234,682,158</u> |
| At 1 January 2000  | —   | —                          | (57,153,441)  | (57,153,441)         |
| Shares issued  | 282,571,108                                   | —                          | —   | 282,571,108          |
| Acquisition of subsidiaries  | 567,458,312                                   | —                          | —   | 567,458,312          |
| Profit for the year  | —   | —                          | 117,729,644   | 117,729,644          |
| At 31 December 2000  | <u>850,029,420</u>                            | <u>—</u>                   | <u>60,576,203</u>                                     | <u>910,605,623</u>   |

Included in share premium and capital reserve is capital reserve arising on the exchange of shares on group reorganization amounting to HK\$567,458,312. The amount represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as the consideration for acquisition.



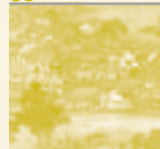
## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 30 RESERVES (Continued)

#### (b) The Company

|  | Share<br>premium<br>\$ | Retained<br>profits<br>\$ | Total<br>\$          |
|--|------------------------|---------------------------|----------------------|
| At 1 January 2001  | 282,571,108            | 42,406,724                | 324,977,832          |
| Dividends approved in respect<br>of the previous year (note 10(b)) | —                      | (35,982,560)              | (35,982,560)         |
| Shares issued  | 1,147,341,567          | —                         | 1,147,341,567        |
| Profit for the year  | —                      | 191,190,188               | 191,190,188          |
| Dividends declared in respect<br>of the current year (note 10(a))  | —                      | (15,410,310)              | (15,410,310)         |
|  | <u>1,429,912,675</u>   | <u>182,204,042</u>        | <u>1,612,116,717</u> |
| At 31 December 2001  |                        |                           |                      |
| At 18 February 2000  | —                      | —                         | —                    |
| Shares issued  | 282,571,108            | —                         | 282,571,108          |
| Profit for the period  | —                      | 42,406,724                | 42,406,724           |
|  | <u>282,571,108</u>     | <u>42,406,724</u>         | <u>324,977,832</u>   |
| At 31 December 2000  |                        |                           |                      |



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of profit from operations to net cash inflow/(outflow) from operating activities

|  | 2001<br>\$         | 2000<br>\$          |
|--|--------------------|---------------------|
| Profit from operations   | 258,037,917        | 118,814,491         |
| Interest charges   | —                  | 232                 |
| Interest income  | (92,211,047)       | (78,157,485)        |
| Dividend income from investments   | (5,544,662)        | (5,575,749)         |
| Recovery from losses on disposal of dated debt securities  | —                  | (20,852,155)        |
| Depreciation   | 2,730,442          | 2,174,820           |
| Losses/(gains) on sales of fixed assets  | 20,602             | (1,497,973)         |
| Losses on disposal of investment properties  | —                  | 782,563             |
| Deficit on revaluation of investment properties  | 7,920,280          | 3,309,036           |
| Net realised and unrealised (gains)/losses on listed and<br>unlisted securities                    | (201,624,621)      | 24,678,444          |
| Losses on disposal of dated debt securities  | —                  | 17,761,405          |
| Amortization of discounts of dated debt securities   | (11,027,011)       | (11,847,760)        |
| Amortization of goodwill   | 3,108,078          | —                   |
| Amortization of goodwill included in share of<br>losses less profits of associates                 | 310,070            | —                   |
| Provision for diminution in value of unlisted investments  | —                  | 4,127,000           |
| Decrease/(increase) in trade and other receivables   | 47,645,123         | (7,739,887)         |
| Increase/(decrease) in trade and other payables  | 59,650,334         | (28,338,699)        |
| (Increase)/decrease in amount due from group companies<br>other than the unconsolidated subsidiary | (934,975)          | 69,303,746          |
| Increase in amount due to group companies  | 23,166,516         | 11,632              |
| Decrease in provision for outstanding claims   | (10,081,336)       | (52,949,136)        |
| Increase in life assurance funds   | 749,919            | 657,683             |
| Increase/(decrease) in insurance funds   | 69,076,488         | (59,374,254)        |
| Exchange (gains)/losses  | (1,566,883)        | 12,036,238          |
|  | <u>149,425,234</u> | <u>(12,675,808)</u> |

## 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

## (b) Non-cash transactions

## (i) Purchase of a subsidiary

|                                   |                    |
|-----------------------------------|--------------------|
|                                   | \$                 |
| Net assets acquired:              |                    |
| Cash at bank and in hand          | 235,368,887        |
| Goodwill arising on consolidation | 186,484,691        |
|                                   | <u>421,853,578</u> |
| Satisfied by:                     |                    |
| Cash paid                         | 227,735,124        |
| Shares issued (note 31(d))        | 194,118,454        |
|                                   | <u>421,853,578</u> |

The shares were issued as part of the consideration for acquisition of a 50.05% equity interest in TPL. The original acquisition in TPL was 62.5%, which was partly settled by an issuance and allotment of shares at an agreed share value of \$242,405,661 (note 29(a)(viii)). The remaining 12.45% interest in TPL, which was partly settled by an issuance and allotment of shares at an agreed share value of \$48,287,207 (note 31(d)), was disposed of during the year.

The subsidiary acquired during the year generated a net operating cash outflow of \$2,407,588, received \$1,458,600 in respect of the net returns on investments and servicing of finance and utilised \$107,920,879 for investing activities.

## (ii) Purchase of associates

|                                   |                    |
|-----------------------------------|--------------------|
|                                   | \$                 |
| Net assets acquired               | 145,726,273        |
| Goodwill arising on consolidation | 74,416,703         |
|                                   | <u>220,142,976</u> |
| Satisfied by:                     |                    |
| Cash paid                         | 50,048,636         |
| Shares issued (note 31(d))        | 170,094,340        |
|                                   | <u>220,142,976</u> |

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (c) Analysis of net inflow of cash and cash equivalents in respect of the purchase of a subsidiary

|   |                           |
|---|---------------------------|
|   | \$                        |
| Cash at bank and in hand acquired   | 470,267,506               |
| Cash consideration  | <u>(227,735,124)</u>      |
| Net inflow of cash and cash equivalents<br>in respect of the purchase of a subsidiary | <u><u>242,532,382</u></u> |

#### (d) Analysis of changes in financing

|  | Share<br>capital<br>\$   | Share<br>Premium<br>\$      | Total<br>\$                 |
|--|--------------------------|-----------------------------|-----------------------------|
| At 1 January 2000  | —                        | —                           | —                           |
| Cash flows from financing  | 11,145,400               | 282,571,108                 | 293,716,508                 |
| <b>Non-cash transactions:</b>  |                          |                             |                             |
| Shares issued for acquisition of subsidiaries  | <u>33,542,000</u>        | <u>567,458,312</u>          | <u>601,000,312</u>          |
| At 31 December 2000  | <u>44,687,400</u>        | <u>850,029,420</u>          | <u>894,716,820</u>          |
| At 1 January 2001  | 44,687,400               | 850,029,420                 | 894,716,820                 |
| Cash flows from financing  | 11,812,390               | 671,488,708                 | 683,301,098                 |
| <b>Non-cash transactions:</b>  |                          |                             |                             |
| Shares issued as part of the considerations<br>for acquisition of a subsidiary (note 31(b)(i))                                       | 3,143,619                | 190,974,835                 | 194,118,454                 |
| Shares issued as part of the considerations<br>for acquisition of other investments<br>(note 31(b)(i))                               | 781,979                  | 47,505,228                  | 48,287,207                  |
| Shares issued as part of the considerations<br>for acquisition of associates (note 31(b)(ii))  | 2,257,810                | 167,836,530                 | 170,094,340                 |
| Shares issued as part of the considerations for<br>acquisition of other investments by an<br>unconsolidated subsidiary (note 15(ii)) | <u>935,432</u>           | <u>69,536,266</u>           | <u>70,471,698</u>           |
| At 31 December 2001  | <u><u>63,618,630</u></u> | <u><u>1,997,370,987</u></u> | <u><u>2,060,989,617</u></u> |

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 32 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2001 not provided for in the accounts were as follows:

|                                   | 2001<br>\$       | 2000<br>\$ |
|-----------------------------------|------------------|------------|
| Contracted for                    | 6,092,343        | —          |
| Authorised but not contracted for | —                | —          |
|                                   | <u>6,092,343</u> | <u>—</u>   |

- (b) At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

|                                 | 2001<br>\$        | 2000<br>\$       |
|---------------------------------|-------------------|------------------|
| Within 1 year                   | 12,705,895        | 1,877,940        |
| After 1 year but within 5 years | 25,738,926        | 1,327,610        |
|                                 | <u>38,444,821</u> | <u>3,205,550</u> |

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

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 33 CONTINGENT LIABILITIES

- (i) The Group has invested in a corporate vehicle specially established to participate in the Lloyd's market through the subscription of loan stocks totalling £1,500,000. £10,000 of the investment was invested in cash and is accounted for as other investments in the accounts. The remaining £1,490,000 is by way of a letter of credit issued by a bank. The letter of credit is backed up by a pledged deposit of an equivalent amount placed in the bank (note 20). The maximum loss for the holders of the loan stocks is the total investment amount.
- (ii) For the purposes of the Reorganisation and Share Transfer Agreement ("the Reorganisation") entered into by the Company with China Insurance Company, Limited ("CICL") and TPL on 4 September 2001, which has been approved by the China Insurance Regulatory Commission with the consent of the State Council of the PRC, TPL has entered into an Asset Transfer Agreement with China Life Insurance Company. Pursuant to the Asset Transfer Agreement, except for liabilities constituting or arising out of or relating to business undertaken by TPL after the Reorganisation, no other liabilities will be assumed by TPL and TPL is not liable, whether severally or jointly and severally, for debts and obligations incurred prior to the Reorganisation, except for the contractual commitments disclosed in section 6 "Commitments" of the Accountant's Report on TPL in the Company's circular dated 25 September 2001. CICL has agreed to indemnify TPL against any loss or damage to TPL attributable to the assets and liabilities transferred out from TPL pursuant to the Asset Transfer Agreement.
- (iii) As at 31 December 2001, other than those in the normal course of the Group's insurance business, there was no outstanding litigation.

**34 MATERIAL RELATED PARTY TRANSACTIONS**

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

|   | <i>Note</i>   | <b>2001</b>        | 2000        |
|---|---------------|--------------------|-------------|
|   |               | \$                 | \$          |
| <b>Recurring transactions</b>             |               |                    |             |
| Business ceded by related companies:      |               |                    |             |
| Gross premiums written                    |               | <b>182,394,374</b> | 147,601,984 |
| Commission expenses paid                  |               | <b>50,855,604</b>  | 38,453,912  |
| Business retroceded to related companies: |               |                    |             |
| Outward retrocession premiums             |               | <b>136,683</b>     | 1,885,229   |
| Commission income received                |               | <b>325,873</b>     | 1,132,784   |
| Interest income received on               |               |                    |             |
| Loans to directors and senior management  | <i>(i)</i>    | —                  | 63,602      |
| Loans to related companies                | <i>(ii)</i>   | —                  | 1,068,232   |
| Premium deposits placed                   |               | <b>298,575</b>     | 436,102     |
| Funds in an insurance pool                | <i>(iii)</i>  | <b>821,582</b>     | 1,372,783   |
| Securities brokerage fee paid             | <i>(iv)</i>   | <b>683,927</b>     | 633,174     |
| Service fee income received               | <i>(iii)</i>  | <b>36,511</b>      | 559,899     |
| Contributions to retirement schemes       | <i>(v)</i>    | <b>1,519,062</b>   | 1,163,052   |
| Retirement scheme management fee paid     | <i>(v)</i>    | <b>43,073</b>      | 36,078      |
| <b>Non-recurring transactions</b>         |               |                    |             |
| Acquisition of an associate               | <i>(vi)</i>   | <b>1,164,000</b>   | —           |
| Acquisition of a subsidiary               | <i>(vii)</i>  | <b>522,405,661</b> | —           |
| Acquisition of an associate               | <i>(viii)</i> | <b>300,707,547</b> | —           |

**Notes:**

- (i) A subsidiary has made mortgage loans to certain directors and senior management of the Group. No loan balance was outstanding as at 31 December 2001 (2000: \$Nil). The mortgage loans were fully secured by properties. Interest under the above arrangements was charged at a fixed rate of 3% to 4% per annum. All loans granted and interest accrued were immediately due and payable on the termination of the employment of the relevant directors and senior management of the Group.
- (ii) A subsidiary has made loans to certain subsidiary companies of the major shareholders of the Group with an interest rates in a range of 4% to 11% per annum. No loan balance was outstanding as at 31 December 2001 (2000: \$Nil). No advance or repayment was made during the year.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (iii) Certain related insurance companies of the Group ceded their Employees' Compensation and Employer's Liability business under an excess-of-loss reinsurance treaty to an insurance pool ("the Pool") in which a subsidiary of the Group has a 15% participation on a quota share basis. The subsidiary has also been appointed as the administrator of the Pool and receives a service fee of 1% of the inward reinsurance premiums written by the Pool. The Pool arrangement ceased with effect from 1 April 2000 and is in the process of being run off.
- (iv) The Group has entered into agreements with a related securities company, which is a subsidiary of the major shareholder of the Group, in relation to securities broking services provided. Securities broking fees are charged at a fixed rate of 0.25% of the securities value.
- (v) Employees of the Group participated in a defined contribution retirement scheme and Mandatory Provident Funds scheme managed by a related life insurance company of the Group which charges a management fee for the services rendered.
- (vi) The Group acquired a 25% equity interest in an insurance agency and consultant service company, from a shareholder of the Company.
- (vii) On 4 September 2001, the Company entered into a reorganisation and share transfer agreement with its ultimate holding company and TPL, pursuant to which the Company has conditionally agreed to acquire a 62.5% equity interest in TPL from its ultimate holding company for a total consideration of approximately \$522.4 million.
- (viii) Pursuant to a meeting of shareholders on 22 December 2001, the Group acquired from its ultimate holding company a total of 42.5% equity interest in TPI for a total consideration of \$300,707,547, comprising a cash consideration of \$60,141,509 and an allotment of 63,864,829 shares at \$3.7668 per share, credited to the immediate holding company as directed by the ultimate holding company.

### 35 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company as at 31 December 2001 to be CICL which is established in the PRC.