

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable SSAP and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules. A summary of the significant accounting policies adopted by the Group and the Company is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements 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 financial statements, 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 income statement as they arise.

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) **Subsidiaries** *(Continued)*

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 income statement as they arise.

(d) **Associates**

An associate is an entity in which the Group or the 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 financial statements 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 income statement as they arise. The consolidated income statement 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 income statement.

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 income statement as they arise.

NOTES ON THE FINANCIAL STATEMENTS

(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 income statement 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 income statement 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 carrying amounts are not expected to be fully recovered and are recognised as an expense in the income statement, 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. Investment securities 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 income statement, such provisions being determined for each investment individually.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments in securities *(Continued)*

- (iii) Provisions against the carrying value 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 (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement 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 income statement as they arise.

Securities sold under repurchase agreements represent short-term finance arrangements secured by the securities sold. The securities remain on the balance sheet and a liability is recorded in respect of the consideration received. Interest is calculated based upon the amount at which the securities are contracted for repurchase less the original selling price, and is taken to the income statement over the terms of the respective agreements on a straight-line basis.

Conversely, securities purchased under resale agreements represent short-term investment arrangements secured by the securities purchased. The securities are not recognised on the balance sheet and the consideration paid is recorded in current assets. Interest is calculated based upon the amount at which the securities are contracted for resale less the original purchase cost, and is taken to the income statement over the terms of the respective agreements on a straight-line basis.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
 - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value. It is the Group's policy to undertake valuations at intervals of not more than three years by independent professional valuers on an open market value basis. 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
 - land and buildings, plant, machinery and other fixed assets are stated in the balance sheet 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 income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.
- (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 income statement 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 income statement for the year.

NOTES ON THE FINANCIAL STATEMENTS

(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 Group's or the Company's 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(r)(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 income statement 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement 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 other 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%

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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:

- property, plant and equipment (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 income statement in the year in which the reversals are recognised.

NOTES ON THE FINANCIAL STATEMENTS

(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 income statement. All income and expenditure relating to open underwriting years are included in the insurance funds.

The revenue account in respect of life insurance business is prepared on an annual basis and is closed at the end of each accounting year and the balance is transferred to the income statement. Mortality fluctuation and future liability are all included in life insurance 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 insurance 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.

- (i) Insurance funds represent the balance of net written premiums and related income over net claims paid and related acquisition costs in respect of open underwriting years of non-life reinsurance business. 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 two 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.
- (ii) Provision for outstanding claims represents estimated liabilities relating to the life insurance business and closed underwriting years of non-life reinsurance business in respect of outstanding claims and claims incurred but not reported after deducting amounts recoverable from reinsurers. 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.
- (iii) Life insurance funds represent reserves to cover mortality fluctuation and future liability. It is determined by reference to an actuarial valuation model which was prepared by an actuary appointed by the Group.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Trust account

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

(o) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred. Contributions to PRC government retirement benefit funds are recognised as an expense in the income statement as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company at HK\$1 consideration on each grant, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(p) Deferred taxation

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

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

(r) 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 in the income statement 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 income statement 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 income statement 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

- (iii) Income from asset management and insurance intermediaries business

Income from asset management and 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.

- (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 other than from dated debt securities is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(s) 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 dealt with in the income statement.

- (ii) On consolidation

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) **Related parties**

For the purposes of these financial statements, 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.

(u) **Management expenses**

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

(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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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 FINANCIAL STATEMENTS

(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 all classes of non-life and life reinsurance businesses, and direct life insurance business. The Group also carries on asset management and insurance intermediaries businesses and, to support its insurance activities, holds money market, fixed income, equity and property investments.

Turnover represents gross premiums written and income from asset management and insurance intermediaries businesses. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002 \$	2001 \$
Gross premiums written		
Reinsurance business	1,164,518,084	811,677,946
Life insurance business	1,556,488,746	7,095,743
	<u>2,721,006,830</u>	<u>818,773,689</u>
Income from asset management business	<u>27,316,129</u>	—
Income from insurance intermediaries business	<u>15,323,655</u>	<u>11,618,164</u>
	<u>2,763,646,614</u>	<u>830,391,853</u>

3 OTHER REVENUE

	2002 \$	2001 \$
Dividend income from listed securities	5,318,929	5,299,776
Dividend income from unlisted securities	355,431	244,886
Interest income from listed securities	86,387,631	58,805,692
Interest income from unlisted securities	15,857,343	14,523,404
Other interest income	36,664,556	18,881,951
Rentals receivable from operating leases	3,473,705	3,361,591
Others	1,416,797	4,283,406
	<u>149,474,392</u>	<u>105,400,706</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 OTHER NET (LOSS)/INCOME

	2002	2001
	\$	\$
Net loss on sale of fixed assets	(392,425)	(20,602)
Deficit on revaluation of investment properties	(4,591,720)	(7,920,280)
Net realised and unrealised losses on listed securities	(43,738,822)	(8,971,003)
Net realised and unrealised gains on unlisted securities	1,870,137	210,595,624
Amortisation of discounts of dated debt securities	7,110,734	11,027,011
Provision for diminution in value of listed securities	(15,919,986)	—
Provision for diminution in value of unlisted securities	(2,332,044)	—
Write back of provision for diminution in value of unlisted securities	2,817,000	—
Others	90,117	3,196,795
	<u>(55,087,009)</u>	<u>207,907,545</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2002 \$	2001 \$
(a) Finance costs:		
Interest on other loans	<u>3,160,552</u>	<u>405,812</u>
(b) Staff costs:		
Contributions to defined contribution plan	4,094,921	1,800,850
Salaries, wages and other benefits	<u>103,702,893</u>	<u>31,446,044</u>
	107,797,814	33,246,894
Less: Amounts deferred and included in insurance funds	<u>(51,493,851)</u>	<u>(11,296,377)</u>
	<u>56,303,963</u>	<u>21,950,517</u>
Number of employees at the balance sheet date	<u>919</u>	<u>372</u>
(c) Other items:		
Auditors' remuneration	1,185,361	850,400
Depreciation	8,325,241	2,730,442
Operating lease charges: minimum lease payments in respect of properties	11,937,028	4,886,810
Amortisation of goodwill	18,530,970	3,108,078
Amortisation of goodwill included in share of losses less profits of associates	<u>3,745,442</u>	<u>310,070</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 \$	2001 \$
Provision for Hong Kong Profits		
Tax for the year	5,666,255	35,111,855
(Over)/under-provision in respect of prior years	<u>(32,438,428)</u>	<u>2,476,132</u>
	(26,772,173)	37,587,987
Overseas taxation	(7,518,658)	423,419
Deferred taxation (note 29(a))	<u>(27,745)</u>	<u>(288,084)</u>
	(34,318,576)	37,723,322
Share of associates' taxation	<u>225,523</u>	<u>126,827</u>
	<u><u>(34,093,053)</u></u>	<u><u>37,850,149</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% (2001: 16%) on its assessable profits except for those from the offshore risk reinsurance business which is calculated at one-half of the standard tax rate, i.e., 8% (2001: 8%).

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

The potential liability for unprovided deferred taxation for the year amounts to:

	2002 \$	2001 \$
Depreciation allowances in excess of related depreciation	<u><u>332,954</u></u>	<u><u>400,744</u></u>

At 31 December 2002, the Group had unutilised tax losses of approximately \$35,922,817 (2001: \$30,762,510) available for set off against future assessable profits. No credit for these potential tax benefits has been recognised in the financial statements as it is not certain that these losses will be utilised in the foreseeable future.

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6 TAXATION (Continued)

(b) Taxation in the balance sheets represents:

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Provision for Hong Kong Profits Tax for the year	9,020,578	35,111,855	—	33,653,242
Provisional Profits Tax paid	(1,152,331)	(435,610)	—	—
	<u>7,868,247</u>	<u>34,676,245</u>	<u>—</u>	<u>33,653,242</u>
Balance of Profits Tax provision relating to prior years	2,292,626	6,169,011	—	—
Taxation outside Hong Kong	592,588	8,539,100	—	—
	<u>10,753,461</u>	<u>49,384,356</u>	<u>—</u>	<u>33,653,242</u>
Amount of taxation payable expected to be settled after more than one year	<u>592,588</u>	<u>8,503,937</u>	<u>—</u>	<u>—</u>

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7 DIRECTORS' REMUNERATION

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

	2002	2001
	\$	\$
Fees	400,000	400,000
Salaries and other emoluments	4,696,637	3,892,465
Discretionary bonuses	148,130	1,674,000
Retirement scheme contributions	417,357	274,809
	<u>5,662,124</u>	<u>6,241,274</u>

Included in the directors' remuneration were fees of \$400,000 (2001: \$400,000) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

\$	2002	2001
	Number of	Number of
	directors	directors
Nil — 1,000,000	8	6
1,000,001 — 1,500,000	1	2
1,500,001 — 2,000,000	1	1
	<u>1</u>	<u>1</u>

In addition to the above remuneration, 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 report of the directors and note 30.

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8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2001: three) are directors whose emoluments are disclosed in note 7. The emoluments in respect of the other individual (2001: two individuals) are as follows:

	2002	2001
	\$	\$
Salaries and other emoluments	678,000	1,352,177
Discretionary bonuses	153,400	356,000
Retirement scheme contributions	96,120	178,740
	<u>927,520</u>	<u>1,886,917</u>

The emoluments of the individual (2001: two individuals) with the highest emoluments are within the following bands:

	2002	2001
	Number of individuals	Number of individuals
\$		
Nil — 1,000,000	<u>1</u>	<u>2</u>

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of \$5,072,125 (2001: profit of \$191,190,188) which has been dealt with in the financial statements of the Company.

NOTES ON THE FINANCIAL STATEMENTS

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10 DIVIDENDS

(a) Dividends attributable to the year

	2002	2001
	\$	\$
Interim dividend declared and paid of 1.5 cents per share (2001: 1.5 cents per share)	19,876,374	15,410,310
Final dividend proposed after the balance sheet date of 1.5 cents per share (2001: 3.5 cents per share)	<u>19,881,174</u>	<u>44,551,801</u>
	<u><u>39,757,548</u></u>	<u><u>59,962,111</u></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 year, approved and paid during the year

	2002	2001
	\$	\$
Final dividend in respect of the previous financial year, approved and paid during the year, of 3.5 cents per share (2001: 4.0 cents per share)	<u>44,565,906</u>	<u>35,982,560</u>

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$115,422,653 (2001: \$230,228,994) and the weighted average of 1,286,101,259 (2001: 981,350,403) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of \$115,422,653 (2001: \$230,228,994) and the weighted average of 1,300,941,191 (2001: 994,571,934) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE (Continued)

(c) Reconciliations

	2002 Number of shares	2001 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,286,101,259	981,350,403
Deemed issue of ordinary shares for no consideration	<u>14,839,932</u>	<u>13,221,531</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>1,300,941,191</u></u>	<u><u>994,571,934</u></u>

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's business was presented in the 2001 annual financial statements in the following reportable segments: non-life proportional, non-life non-proportional, life and insurance intermediaries businesses. As a result of the increased underwriting activity of TPL, and the acquisition of CIGAML during 2002, the Group's reportable segments became: reinsurance, life insurance, asset management and insurance intermediaries businesses. Senior management considers this presentation will provide a better understanding of the Group's business.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2002

	Reinsurance	Life insurance	Asset management	Insurance inter-mediaries business	Inter-segment elimination	Unallocated	Total
	\$	\$	\$	\$	\$	\$	\$
Turnover							
Revenue from external customers	1,164,518,084	1,556,488,746	27,316,129	15,323,655	—	—	2,763,646,614
Inter-segment revenue	—	—	305,649	1,737,101	(2,042,750)	—	—
	<u>1,164,518,084</u>	<u>1,556,488,746</u>	<u>27,621,778</u>	<u>17,060,756</u>	<u>(2,042,750)</u>	<u>—</u>	<u>2,763,646,614</u>
Business segment result							
Profit/(loss) attributable from segment	84,208,203	(33,284,194)	27,621,778	17,060,756	—	—	95,606,543
Inter-segment transactions	12,170	—	(305,649)	(1,737,101)	—	—	(2,030,580)
	<u>84,220,373</u>	<u>(33,284,194)</u>	<u>27,316,129</u>	<u>15,323,655</u>	<u>—</u>	<u>—</u>	<u>93,575,963</u>
Other revenue							
Dividend income	4,984,778	—	—	178,774	—	510,808	5,674,360
Interest income from debt securities	77,569,028	6,114,370	7,785,587	—	—	10,775,989	102,244,974
Others	14,479,060	19,689,911	296,585	849,018	—	12,387,264	47,701,838
	<u>97,032,866</u>	<u>25,804,281</u>	<u>8,082,172</u>	<u>1,027,792</u>	<u>—</u>	<u>23,674,061</u>	<u>155,621,172</u>
Inter-segment transactions	(300,000)	—	—	—	—	(5,846,780)	(6,146,780)
	<u>96,732,866</u>	<u>25,804,281</u>	<u>8,082,172</u>	<u>1,027,792</u>	<u>—</u>	<u>17,827,281</u>	<u>149,474,392</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2002 (Continued)

	Reinsurance	Life insurance	Asset management	Insurance inter-mediaries business	Inter-segment elimination	Unallocated	Total
	\$	\$	\$	\$	\$	\$	\$
Other net (loss)/ income							
Net realised and unrealised losses from equity investments, unit trusts and mutual funds	(63,742,103)	(5,925,615)	(107,640)	(600,199)		(6,556,293)	(76,931,850)
Net realised and unrealised gains/(losses) from debt securities	20,094,557	(806,296)	(945,083)	—		8,395,691	26,738,869
Others	(4,578,418)	(265,837)	—	—		(49,773)	(4,894,028)
	<u>(48,225,964)</u>	<u>(6,997,748)</u>	<u>(1,052,723)</u>	<u>(600,199)</u>		<u>1,789,625</u>	<u>(55,087,009)</u>
Expenditure relating to non-underwriting activities							
Administrative expenses	(14,034,496)	(84,748,341)	(12,737,059)	(4,245,863)		(14,130,608)	(129,896,367)
Net exchange gains/(losses)	8,638,660	152,268	(129)	(25,059)		251,044	9,016,784
	<u>(5,395,836)</u>	<u>(84,596,073)</u>	<u>(12,737,188)</u>	<u>(4,270,922)</u>		<u>(13,879,564)</u>	<u>(120,879,583)</u>
Inter-segment transactions	907,253	—	—	300,000		305,648	1,512,901
	<u>(4,488,583)</u>	<u>(84,596,073)</u>	<u>(12,737,188)</u>	<u>(3,970,922)</u>		<u>(13,573,916)</u>	<u>(119,366,682)</u>
Profit/(loss) from operations	<u>128,238,692</u>	<u>(99,073,734)</u>	<u>21,608,390</u>	<u>11,780,326</u>		<u>6,042,990</u>	<u>68,596,664</u>
Share of profits/(losses) of associates	—	—	—	367,100		(29,626,843)	(29,259,743)
Finance costs	<u>—</u>	<u>(617,645)</u>	<u>(2,542,710)</u>	<u>—</u>		<u>(197)</u>	<u>(3,160,552)</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2002 (Continued)

	Reinsurance	Life insurance	Asset management	Insurance inter-mediaries business	Inter-segment elimination	Unallocated	Total
	\$	\$	\$	\$	\$	\$	\$
Profit/(loss) from ordinary activities before taxation	128,238,692	(99,691,379)	19,065,680	12,147,426		(23,584,050)	36,176,369
Taxation	6,331,512	—	(4,104,302)	(1,787,399)		33,653,242	34,093,053
Profit/(loss) from ordinary activities after taxation	134,570,204	(99,691,379)	14,961,378	10,360,027		10,069,192	70,269,422
Minority interests	—	45,153,231	—	—		—	45,153,231
Profit/(loss) attributable to shareholders	<u>134,570,204</u>	<u>(54,538,148)</u>	<u>14,961,378</u>	<u>10,360,027</u>		<u>10,069,192</u>	<u>115,422,653</u>
Depreciation and amortisation for the year	<u>7,800,491</u>	<u>(14,179,737)</u>	<u>(10,633,845)</u>	<u>(117,966)</u>		<u>(6,359,863)</u>	<u>(23,490,920)</u>
Significant non-cash expenses (other than depreciation and amortisation)	<u>(56,548,347)</u>	<u>(5,648,586)</u>	<u>(84,369)</u>	<u>(715,771)</u>		<u>(1,213,772)</u>	<u>(64,210,845)</u>
At 31 December 2002							
Equity investments, unit trusts and mutual funds	205,360,880	50,787,658	1,142,700	8,503,100		34,440,605	300,234,943
Debt securities	1,093,826,958	831,031,746	161,173,694	—		197,117,251	2,283,149,649
Other segment assets	1,115,930,924	1,553,115,824	442,543,528	20,689,351		317,483,132	3,449,762,759
Interest in associates	—	—	—	6,483,174		181,770,257	188,253,431
Total assets	<u>2,415,118,762</u>	<u>2,434,935,228</u>	<u>604,859,922</u>	<u>35,675,625</u>		<u>730,811,245</u>	<u>6,221,400,782</u>
Total liabilities	<u>(1,396,503,214)</u>	<u>(1,902,764,314)</u>	<u>(183,763,712)</u>	<u>(1,086,520)</u>		<u>(2,012,206)</u>	<u>(3,486,129,966)</u>
Capital expenditure incurred during the year	<u>584,688</u>	<u>99,196,540</u>	<u>1,606,778</u>	<u>43,184</u>		<u>209,534</u>	<u>101,640,724</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2001 (restated)

	Reinsurance	Life insurance	Asset management	Insurance intermediaries business	Inter-segment elimination	Unallocated	Total
	\$	\$	\$	\$	\$	\$	\$
Turnover							
Revenue from							
external customers	811,677,946	7,095,743	—	11,618,164	—	—	830,391,853
Inter-segment revenue	—	—	—	1,031,264	(1,031,264)	—	—
	<u>811,677,946</u>	<u>7,095,743</u>	<u>—</u>	<u>12,649,428</u>	<u>(1,031,264)</u>	<u>—</u>	<u>830,391,853</u>
Business segment result							
Profit attributable							
from segment	725,857	1,669,391	—	12,649,428	—	—	15,044,676
Inter-segment transactions	—	19,843	—	(1,031,264)	—	—	(1,011,421)
	<u>725,857</u>	<u>1,689,234</u>	<u>—</u>	<u>11,618,164</u>	<u>—</u>	<u>—</u>	<u>14,033,255</u>
Other revenue							
Dividend income	5,016,428	—	—	174,486	—	353,748	5,544,662
Interest income from							
debt securities	67,787,695	—	—	53,364	—	5,488,037	73,329,096
Others	19,027,805	1,864,390	—	2,016,507	—	6,131,058	29,039,760
	<u>91,831,928</u>	<u>1,864,390</u>	<u>—</u>	<u>2,244,357</u>	<u>—</u>	<u>11,972,843</u>	<u>107,913,518</u>
Inter-segment transactions	(300,000)	—	—	—	—	(2,212,812)	(2,512,812)
	<u>91,531,928</u>	<u>1,864,390</u>	<u>—</u>	<u>2,244,357</u>	<u>—</u>	<u>9,760,031</u>	<u>105,400,706</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2001 (restated) (Continued)

	Reinsurance	Life insurance	Asset management	Insurance inter-mediaries business	Inter-segment elimination	Unallocated	Total
	\$	\$	\$	\$	\$	\$	\$
Other net (loss)/income							
Net realised and unrealised gains/ (losses) from equity investments, unit trusts and mutual funds	(19,101,835)	—	—	(534,158)		210,749,092	191,113,099
Net realised and unrealised gains/ (losses) from debt securities	16,257,390	—	—	—		5,281,143	21,538,533
Others	(4,722,543)	—	—	(500)		(21,044)	(4,744,087)
	<u>(7,566,988)</u>	<u>—</u>	<u>—</u>	<u>(534,658)</u>		<u>216,009,191</u>	<u>207,907,545</u>
Expenditure relating to non-underwriting activities							
Administrative expenses	(20,503,073)	(29,806,946)	—	(4,296,716)		(11,953,272)	(66,560,007)
Net exchange gains/(losses)	(4,239,447)	—	—	512,073		(223,461)	(3,950,835)
	<u>(24,742,520)</u>	<u>(29,806,946)</u>	<u>—</u>	<u>(3,784,643)</u>		<u>(12,176,733)</u>	<u>(70,510,842)</u>
Inter-segment transactions	907,253	—	—	300,000		—	1,207,253
	<u>(23,835,267)</u>	<u>(29,806,946)</u>	<u>—</u>	<u>(3,484,643)</u>		<u>(12,176,733)</u>	<u>(69,303,589)</u>
Profit/(loss) from operations	<u>60,855,530</u>	<u>(26,253,322)</u>	<u>—</u>	<u>9,843,220</u>		<u>213,592,489</u>	<u>258,037,917</u>
Share of profits/(losses) of associates	—	—	—	414,550		(2,561,949)	(2,147,399)
Finance costs	<u>—</u>	<u>(405,812)</u>	<u>—</u>	<u>—</u>		<u>—</u>	<u>(405,812)</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2001 (restated) (Continued)

	Reinsurance \$	Life insurance \$	Asset management \$	Insurance inter- mediaries business \$	Inter- segment elimination \$	Unallocated \$	Total \$
Profit/(loss) from ordinary activities before taxation	60,855,530	(26,659,134)	—	10,257,770		211,030,540	255,484,706
Taxation	(2,591,548)	—	—	(1,299,154)		(33,959,447)	(37,850,149)
Profit/(loss) from ordinary activities after taxation	58,263,982	(26,659,134)	—	8,958,616		177,071,093	217,634,557
Minority interests	—	12,594,437	—	—		—	12,594,437
Profit/(loss) attributable to shareholders	<u>58,263,982</u>	<u>(14,064,697)</u>	<u>—</u>	<u>8,958,616</u>		<u>177,071,093</u>	<u>230,228,994</u>
Depreciation and amortisation for the year	<u>10,127,402</u>	<u>(3,368,943)</u>	<u>—</u>	<u>(433,886)</u>		<u>(1,814,457)</u>	<u>4,510,116</u>
Significant non-cash (expenses)/income (other than depreciation and amortisation)	<u>(22,618,639)</u>	<u>—</u>	<u>—</u>	<u>(71,481)</u>		<u>510,644</u>	<u>(22,179,476)</u>
At 31 December 2001 (restated)							
Equity investments, unit trusts and mutual funds	217,965,536	—	—	5,042,700		11,723,140	234,731,376
Debt securities	1,102,156,732	—	—	—		104,225,535	1,206,382,267
Other segment assets	803,458,353	660,118,153	—	14,545,281		706,241,239	2,184,363,026
Interest in associates	—	—	—	6,341,597		211,217,083	217,558,680
Total assets	<u>2,123,580,621</u>	<u>660,118,153</u>	<u>—</u>	<u>25,929,578</u>		<u>1,033,406,997</u>	<u>3,843,035,349</u>
Total liabilities	<u>(1,217,860,364)</u>	<u>(35,711,516)</u>	<u>—</u>	<u>(1,162,601)</u>		<u>(69,792,855)</u>	<u>(1,324,527,336)</u>
Capital expenditure incurred during the year	<u>1,850,948</u>	<u>8,523,461</u>	<u>—</u>	<u>32,038</u>		<u>2,683,514</u>	<u>13,089,961</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(b) Geographical Segments

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

At 31 December 2002

	Hong Kong and Macau \$	PRC (other than Hong Kong and Macau) \$	Japan \$	Rest of Asia \$	Europe \$	Rest of the world \$	Total \$
Revenue from external customers	518,344,659	1,662,213,428	67,233,253	270,465,216	187,500,258	57,889,800	2,763,646,614
Segment assets	3,598,212,123	2,623,188,659	—	—	—	—	6,221,400,782
Capital expenditure incurred during the year	2,444,184	99,196,540	—	—	—	—	101,640,724

At 31 December 2001

	Hong Kong and Macau \$	PRC (other than Hong Kong and Macau) \$	Japan \$	Rest of Asia \$	Europe \$	Rest of the world \$	Total \$
Revenue from external customers	343,373,316	81,878,098	51,101,995	183,054,161	123,757,659	47,226,624	830,391,853
Segment assets	3,366,293,809	476,741,540	—	—	—	—	3,843,035,349
Capital expenditure incurred during the year	4,566,500	8,523,461	—	—	—	—	13,089,961

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

(a) The Group

	Land and buildings	Furniture and fixtures	Computer equipment	Motor vehicles	Subtotal	Investment properties	Total
	\$	\$	\$	\$	\$	\$	\$
Cost or valuation:							
At 1 January 2002	140,302,258	14,409,843	11,836,659	5,712,145	172,260,905	114,949,720	287,210,625
Additions							
— through acquisition							
of a subsidiary	—	1,156,033	—	—	1,156,033	—	1,156,033
— others	82,812,376	5,167,825	8,116,785	5,543,738	101,640,724	—	101,640,724
Disposals	—	(469,165)	(183,825)	—	(652,990)	—	(652,990)
Deficit on revaluation	—	—	—	—	—	(4,591,720)	(4,591,720)
At 31 December 2002	<u>223,114,634</u>	<u>20,264,536</u>	<u>19,769,619</u>	<u>11,255,883</u>	<u>274,404,672</u>	<u>110,358,000</u>	<u>384,762,672</u>
Representing:							
Cost	223,114,634	20,264,536	19,769,619	11,255,883	274,404,672	—	274,404,672
Valuation — 2002	—	—	—	—	—	110,358,000	110,358,000
	<u>223,114,634</u>	<u>20,264,536</u>	<u>19,769,619</u>	<u>11,255,883</u>	<u>274,404,672</u>	<u>110,358,000</u>	<u>384,762,672</u>
Accumulated depreciation:							
At 1 January 2002	80,537,342	8,973,294	7,027,072	186,439	96,724,147	—	96,724,147
Through acquisition							
of a subsidiary	—	349,683	—	—	349,683	—	349,683
Charge for the year	1,760,007	1,981,469	3,057,921	1,525,844	8,325,241	—	8,325,241
Written back on disposal	—	(44,200)	(161,650)	—	(205,850)	—	(205,850)
At 31 December 2002	<u>82,297,349</u>	<u>11,260,246</u>	<u>9,923,343</u>	<u>1,712,283</u>	<u>105,193,221</u>	<u>—</u>	<u>105,193,221</u>
Net book value:							
At 31 December 2002	<u>140,817,285</u>	<u>9,004,290</u>	<u>9,846,276</u>	<u>9,543,600</u>	<u>169,211,451</u>	<u>110,358,000</u>	<u>279,569,451</u>
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>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

(b) The Company

	Furniture and fixtures \$	Motor vehicles \$	Total \$
Cost:			
At 1 January 2002	2,743,347	1,670,694	4,414,041
Additions	209,534	—	209,534
Disposals	(144,015)	—	(144,015)
	<u>2,808,866</u>	<u>1,670,694</u>	<u>4,479,560</u>
At 31 December 2002	<u>2,808,866</u>	<u>1,670,694</u>	<u>4,479,560</u>
Accumulated depreciation:			
At 1 January 2002	577,240	101,161	678,401
Charge for the year	574,984	340,154	915,138
Written back on disposal	(39,528)	—	(39,528)
	<u>1,112,696</u>	<u>441,315</u>	<u>1,554,011</u>
At 31 December 2002	<u>1,112,696</u>	<u>441,315</u>	<u>1,554,011</u>
Net book value:			
At 31 December 2002	<u>1,696,170</u>	<u>1,229,379</u>	<u>2,925,549</u>
At 31 December 2001	<u>2,166,107</u>	<u>1,569,533</u>	<u>3,735,640</u>

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

	The Group	
	2002 \$	2001 \$
In Hong Kong		
— Long leases	113,289,353	118,337,295
— Medium-term leases	11,603,556	12,557,621
Outside Hong Kong		
— Long leases	119,862,376	38,479,720
— Medium-term leases	6,420,000	5,340,000
	<u>251,175,285</u>	<u>174,714,636</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

- (d) Investment properties of the Group were revalued at 31 December 2002 by an independent firm of surveyors, RHL Appraisal Limited, who have among their staff Associates of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation deficit of \$4,591,720 has been recognised in the income statement (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 \$73,140,000 (2001: \$76,270,000).

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

	2002	2001
	\$	\$
Within 1 year	3,242,362	3,486,740
After 1 but within 5 years	1,306,500	1,366,280
	<u>4,548,862</u>	<u>4,853,020</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 GOODWILL

	\$
Cost:	
At 1 January 2002	186,484,691
Addition through acquisition of a subsidiary (note 34(a))	<u>368,873,598</u>
At 31 December 2002	----- 555,358,289
Accumulated amortisation:	
At 1 January 2002	3,108,078
Amortisation for the year	<u>18,530,970</u>
At 31 December 2002	----- <u>21,639,048</u>
Carrying amount:	
At 31 December 2002	<u>533,719,241</u>
At 31 December 2001	<u>183,376,613</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 income statement.

15 INVESTMENTS IN SUBSIDIARIES

	2002	2001
	\$	\$
Unlisted shares, at cost	<u>860,409,363</u>	<u>455,395,586</u>

The following list contains details of the Company's subsidiaries at the date of this report. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group's financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 capital	Group's effective interest	Proportion of ownership interest held by		Principal activity
				the company	held by subsidiary	
China International Reinsurance Company Limited (Note (i))	Hong Kong	Ordinary	100%	—	100%	Reinsurance business
		\$180,000,000				
		Deferred	—	—	—	
		\$600,000,000				
China Insurance Group Assets Management Limited	Hong Kong	\$10,000,000	100%	100%	—	Asset management business
SINO-RE Reinsurance Brokers Limited (Note (i))	Hong Kong	Ordinary	100%	—	100%	Insurance broking
		\$4,000,000				
		Deferred	—	—	—	
		\$1,000,000				
Tai Ping Life Insurance Company, Limited (Note (ii))	The PRC	RMB500,000,000	50.05%	—	—	Life insurance business
Quicken Assets Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$1	100%	100%	—	Property holding
Effectual Assets Limited	BVI/ Hong Kong	US\$20	100%	100%	—	Investment holding
Influential Assets Limited	BVI/ Hong Kong	US\$20	100%	100%	—	Investment holding
Share China Assets Limited	BVI/ Hong Kong	US\$1	100%	100%	—	Dormant

Notes:

- (i) 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.
- (ii) The company is a PRC limited company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 INTEREST IN ASSOCIATES

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Unlisted shares, at cost	—	—	220,322,993	220,142,976
Share of net assets	117,892,240	143,452,047	—	—
Goodwill	70,361,191	74,106,633	—	—
	<u>188,253,431</u>	<u>217,558,680</u>	<u>220,322,993</u>	<u>220,142,976</u>

Goodwill arising from acquisitions of associates is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of 20 years.

The following list contains details of the Company's associates, all of which are unlisted corporate entities:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
				Group's effective interest	held by the Company	
The Tai Ping Insurance Company, Limited	Incorporated (PRC limited company)	The PRC	RMB 500,000,000	30.05%	30.05%	Non-life insurance
Huatai Insurance Agency & Consultant Service Ltd	Incorporated (Foreign investment enterprise)	The PRC	RMB 23,281,000	25%	25%	Insurance agency and consultancy

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN SECURITIES

(a) The Group

	Central governments and central banks	Public sector entities	Banks and other financial institutions	Corporate entities	Others	Total
At 31 December 2002						
Held-to-maturity debt securities						
Listed:						
— in Hong Kong	—	3,878,218	35,836,535	—	—	39,714,753
— outside Hong Kong	777,477,304	172,735,674	363,685,589	385,550,046	7,132,398	1,706,581,011
	777,477,304	176,613,892	399,522,124	385,550,046	7,132,398	1,746,295,764
Unlisted	65,635,924	77,247,098	45,464,467	78,141,811	—	266,489,300
	843,113,228	253,860,990	444,986,591	463,691,857	7,132,398	2,012,785,064
Other investments						
Listed debt securities						
— outside Hong Kong	5,921,760	22,732,316	113,259,344	105,509,165	—	247,422,585
Listed equity securities						
— in Hong Kong	—	247,500	39,385,620	130,160,174	6,335,600	176,128,894
— outside Hong Kong	—	—	6,600,885	37,528,267	—	44,129,152
Listed unit trusts and mutual funds						
— outside Hong Kong	—	—	—	68,757,941	—	68,757,941
Unlisted debt securities						
	—	—	22,942,000	—	—	22,942,000
Unlisted equity securities						
	—	—	—	11,218,956	—	11,218,956
	5,921,760	22,979,816	182,187,849	353,174,503	6,335,600	570,599,528
	849,034,988	276,840,806	627,174,440	816,866,360	13,467,998	2,583,384,592
Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date)						
	792,297,399	214,343,896	578,522,321	742,155,472	13,727,702	2,341,046,790

NOTES ON THE FINANCIAL STATEMENTS

(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
At 31 December 2001						
Held-to-maturity debt securities						
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
	121,686,733	85,813,265	357,570,962	420,633,965	21,529,413	1,007,234,338
Other investments						
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 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
	1,958,486	8,427,900	76,164,127	337,172,642	10,156,150	433,879,305
	123,645,219	94,241,165	433,735,089	757,806,607	31,685,563	1,441,113,643
Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date)						
	75,910,676	82,933,700	350,629,063	646,726,913	31,676,830	1,187,877,182

The held-to-maturity debt securities include an amount of \$94,457,829 (2001: \$154,877,646) which is maturing within one year.

The held-to-maturity debt securities include an amount of \$380,332,500 (2001: \$Nil) which is used as a pledge of securities sold under repurchase agreements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN SECURITIES (Continued)

(b) The Company

	2002 \$	2001 \$
Held-to-maturity debt securities		
Listed:		
— in Hong Kong	3,878,218	—
— outside Hong Kong	69,870,119	—
Other investments		
Listed debt securities		
— outside Hong Kong	100,426,914	76,162,675
Listed equity securities		
— in Hong Kong	30,270,889	10,625,000
— outside Hong Kong	4,169,716	1,098,132
Unlisted debt securities	22,942,000	28,062,860
Unlisted equity securities	—	8
	<u>231,557,856</u>	<u>115,948,675</u>
Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date)	<u>212,362,611</u>	<u>87,885,807</u>

All held-to-maturity debt securities are maturing after more than one year.

The Group's unlisted equity securities include an investment of \$8,000,000 (2001: \$8,000,000), representing a 20% (2001: 20%) equity interest in Dragon Jade, 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 FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

18 SECURITIES PURCHASED UNDER RESALE AGREEMENT

All securities purchased under resale agreement are expected to be recovered within one year.

19 AMOUNTS DUE FROM/(TO) GROUP COMPANIES

(a) Due from group companies

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Amount due from the immediate holding company	264,027	781,914	183,465	781,914
Amount due from an unconsolidated subsidiary	—	88,699,137	—	88,699,137
Amounts due from subsidiaries	—	—	237,863,246	305,379,539
Amount due from an associate	28,788	125,416	—	125,416
Amount due from a fellow subsidiary	6,074,724	27,645	—	—
	<u>6,367,539</u>	<u>89,634,112</u>	<u>238,046,711</u>	<u>394,986,006</u>

(b) Due to group companies

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Amount due to the ultimate holding company	—	22,203,841	—	—
Amount due to the immediate holding company	13,230	—	—	—
Amounts due to fellow subsidiaries	173,882,868	974,307	144,014	974,307
	<u>173,896,098</u>	<u>23,178,148</u>	<u>144,014</u>	<u>974,307</u>

The amounts due to fellow subsidiaries include an amount of \$172,904,385 which is unsecured, repayable on demand and bears interest at LIBOR plus 0.6%. Other amounts due from/(to) group companies are unsecured, interest free and repayable on demand.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Amounts due from cedants and retrocessionaires	105,168,857	83,626,348	—	—
Deposits retained by cedants	121,397,966	95,682,015	—	—
Other debtors, deposits and prepayments	85,835,867	33,968,251	5,402,319	3,101,703
Loans and advances	24,856,273	43,381,823	—	—
	<u>337,258,963</u>	<u>256,658,437</u>	<u>5,402,319</u>	<u>3,101,703</u>

All of the trade and other receivables, apart from \$6,415,785 (2001: \$21,313,926) 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 \$13,615,023 (2001: \$18,632,378) which are trade related in nature.

Loans and advances are repayable with the following terms:

	2002	2001	Interest rate	Repayment term
	\$	\$		
Secured mortgage loans:				
— to staff members of the Group	—	106,864	3% to prime	20 years by instalments
Unsecured loans:				
— to a fellow subsidiary	4,830,000	4,830,000	free	on demand
— to third parties	20,026,273	38,444,959	8%	10 years
	<u>24,856,273</u>	<u>43,381,823</u>		

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

20 TRADE AND OTHER RECEIVABLES (Continued)

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

	The Group	
	2002	2001
	\$	\$
Current	75,156,394	58,722,033
More than 3 months but less than 12 months	26,931,106	19,238,455
More than 12 months	3,081,357	5,665,860
	<u>105,168,857</u>	<u>83,626,348</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.

21 PLEDGED DEPOSITS AT BANK

The Group has pledged bank deposits of \$65,558,233 (2001: \$49,420,613) 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 37(i)).

22 DEPOSITS AT BANK WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

A subsidiary of the Group has placed \$100,161,635 (2001: \$99,397,045) 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.

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Deposits with banks and other financial institutions with original maturity less than three months	850,772,152	1,186,564,157	250,395,409	550,206,035
Cash at bank and in hand	260,847,713	128,348,459	1,878,849	1,161,417
	<u>1,111,619,865</u>	<u>1,314,912,616</u>	<u>252,274,258</u>	<u>551,367,452</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 INSURANCE PROTECTION FUND

Insurance protection fund is provided for at 1% of the related premium income of personal accident and short term health policies in accordance with Article 97 of the Insurance Law of the PRC and relevant regulations issued by the CIRC.

Insurance protection fund is expected to be settled after more than one year.

25 LIFE INSURANCE FUNDS

Included in life insurance funds is an amount of \$16,357,096 (2001: 2,604,059) which is expected to be settled within one year.

26 PROVISION FOR OUTSTANDING CLAIMS

The Group

	Claims reported \$	Incurred but not reported \$	Total \$
2002			
Gross claims	592,687,687	138,185,890	730,873,577
Less: Reinsurers' share	<u>(144,008,674)</u>	<u>(19,923,808)</u>	<u>(163,932,482)</u>
	<u>448,679,013</u>	<u>118,262,082</u>	<u>566,941,095</u>
2001			
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>
	<u>489,045,482</u>	<u>134,072,520</u>	<u>623,118,002</u>

Included in provision for outstanding claims is an amount of \$140,980,000 (2001: \$242,896,000) 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 SECURITIES SOLD UNDER REPURCHASE AGREEMENT

All securities sold under repurchase agreement are expected to be settled within one year.

28 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Amounts due to insurance customers and suppliers	50,950,009	35,408,217	—	—
Deposits retained from retrocessionaires	24,888,613	10,928,114	—	—
Other creditors, accrued charges and temporary receipts	60,063,153	57,338,729	1,853,193	34,315,142
Advance premiums	55,973,470	—	—	—
	<u>191,875,245</u>	<u>103,675,060</u>	<u>1,853,193</u>	<u>34,315,142</u>

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

Amounts due to insurance customers and suppliers include amounts due to fellow subsidiaries of \$588,800 (2001: \$1,175,759) which are trade related in nature.

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

	The Group	
	2002	2001
	\$	\$
Current	34,260,609	28,612,000
More than 3 months but less than 12 months	11,428,000	3,925,000
More than 12 months	5,261,400	2,871,217
	<u>50,950,009</u>	<u>35,408,217</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

29 DEFERRED TAXATION

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

	2002 \$	2001 \$
At 1 January	27,745	315,829
Transfer to the income statement (note 6(a))	<u>(27,745)</u>	<u>(288,084)</u>
At 31 December	<u>—</u>	<u>27,745</u>

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

	2002		2001	
	Provided \$	Potential liabilities unprovided \$	Provided \$	Potential liabilities unprovided \$
Depreciation allowances in excess of related depreciation	<u>—</u>	<u>1,076,474</u>	<u>—</u>	<u>743,520</u>
Others	<u>—</u>	<u>—</u>	<u>27,745</u>	<u>—</u>

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 EQUITY COMPENSATION BENEFITS

During the year, the Company had a share option scheme which was adopted on 24 May 2000 (“the Old Scheme”) whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. Options granted between 24 May 2000 and 31 August 2001 were granted in accordance with the provisions of the Old Scheme. Options granted between 1 September 2001 and 31 December 2002 were also granted under the Old Scheme and in accordance with the requirements of Chapter 17 of the Listing Rules which came with effect on 1 September 2001. A new share option scheme which is in line with the prevailing requirements of Chapter 17 of the Listing Rules was adopted subsequent to the balance sheet date.

(a) Movements in share options

	2002 Number	2001 Number
At 1 January	18,803,000	20,200,000
Issued	8,690,000	6,095,000
Exercised (note 32)	(1,339,000)	(7,458,000)
Cancelled	—	(34,000)
	<u>26,154,000</u>	<u>18,803,000</u>
At 31 December	<u>26,154,000</u>	<u>18,803,000</u>
Options vested at 31 December	<u>23,960,667</u>	<u>18,803,000</u>

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2002 Number	2001 Number
26 September 2000	26 September 2000 to 27 September 2010	HK\$1.10	15,530,000	16,630,000
12 February 2001	12 February 2001 to 11 February 2011	HK\$0.95	1,934,000	2,173,000
12 September 2002	12 September 2002 to 22 September 2012	HK\$3.225	8,690,000	—
			<u>26,154,000</u>	<u>18,803,000</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 EQUITY COMPENSATION BENEFITS (Continued)

(c) Details of share options granted during the year, all of which were granted for \$1 consideration

Exercise period	Exercise price	2002 Number	2001 Number
12 February 2001 to 11 February 2011	HK\$0.95	—	6,095,000
12 September 2002 to 22 September 2012	HK\$3.225	8,690,000	—

(d) Details of share options exercised during the year

Exercise date	Exercise price \$	Weighted average market value per share at exercise dates \$	Proceeds received \$	Number
January	1.11	4.625	222,000	200,000
February	1.11	4.691	299,700	270,000
	0.95	4.709	62,700	66,000
April	1.11	4.161	255,300	230,000
	0.95	4.216	164,350	173,000
June	1.11	3.735	66,600	60,000
July	1.11	3.560	111,000	100,000
October	1.11	3.400	111,000	100,000
November	1.11	3.800	44,400	40,000
December	1.11	3.975	111,000	100,000
			<u>1,448,050</u>	<u>1,339,000</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 MATURITY PROFILE

(a) The Group

	Repayable on demand \$	3 months or less \$	1 year or less but over 3 months \$	5 years or less but over 1 year \$	After 5 years \$	Undated \$	Total \$
2002							
Assets							
Deposits at bank with original maturity more than 3 months	—	—	—	666,872,147	—	—	666,872,147
Deposits at banks and other financial institutions with original maturity less than 3 months	4,502,818	846,269,334	—	—	—	—	850,772,152
Certificates of deposit held (under held-to-maturity)	—	—	—	14,713,872	10,000,000	—	24,713,872
Pledged deposits at bank	—	65,558,233	—	—	—	—	65,558,233
Securities purchased under resale agreement	—	448,797,320	—	—	—	—	448,797,320
Debt securities (under held-to-maturity)	—	23,492,018	70,965,811	441,860,081	1,428,413,159	23,340,123	1,988,071,192
Debt securities (under other investments in securities)	—	—	—	22,142,250	133,273,745	114,948,590	270,364,585
	<u>4,502,818</u>	<u>1,384,116,905</u>	<u>70,965,811</u>	<u>1,145,588,350</u>	<u>1,571,686,904</u>	<u>138,288,713</u>	<u>4,315,149,501</u>
2001							
Assets							
Deposits at bank with original maturity more than 3 months	—	—	476,738	99,397,419	—	—	99,874,157
Deposits at banks and other financial institutions with original maturity less than 3 months	—	1,186,564,157	—	—	—	—	1,186,564,157
Certificates of deposit held (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
Securities purchased under resale agreement	—	—	—	—	—	—	—
Debt securities (under held-to-maturity)	—	23,100,464	131,777,182	299,615,369	533,164,657	—	987,657,672
Debt securities (under other investments 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>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 MATURITY PROFILE (Continued)

(b) The Company

	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
	\$	\$	\$	\$	\$	\$	\$
2002							
Assets							
Deposits at banks and other financial institutions with original maturity less than 3 months	1,001,547	249,393,862	—	—	—	—	250,395,409
Debt securities (under held-to- maturity)	—	—	—	—	50,408,214	23,340,123	73,748,337
Debt securities (under other investments in securities)	—	—	—	22,142,250	101,226,664	—	123,368,914
	<u>1,001,547</u>	<u>249,393,862</u>	<u>—</u>	<u>22,142,250</u>	<u>151,634,878</u>	<u>23,340,123</u>	<u>447,512,660</u>
2001							
Assets							
Deposits at banks and other financial institutions with original maturity less than 3 months	—	550,206,035	—	—	—	—	550,206,035
Debt securities (under held-to-maturity)	—	—	—	—	—	—	—
Debt securities (under other investments 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>—</u>	<u>654,431,570</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 SHARE CAPITAL

	2002		2001	
	No. of shares	\$	No. of shares	\$
Authorised:				
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>
Issued and fully paid:				
At 1 January	1,272,372,592	63,618,630	893,748,000	44,687,400
Shares issued (a)	51,620,000	2,581,000	371,166,592	18,558,330
Shares issued under share option scheme (note 30(a))	<u>1,339,000</u>	<u>66,950</u>	<u>7,458,000</u>	<u>372,900</u>
	<u>1,325,331,592</u>	<u>66,266,580</u>	<u>1,272,372,592</u>	<u>63,618,630</u>

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

(a) Issuance of shares

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) 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 TPL.
- (vi) Pursuant to a meeting of directors on 6 September 2002, the directors of the Company approved to issue and allot 51,620,000 shares of \$0.05 each at \$3.905 per share to the immediate holding company, as part of the consideration for the acquisition of 100% equity interest in CIGAML.

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 RESERVES

(a) The Group

	Capital reserve	Share premium	Exchange reserves	Retained profits	Total
	\$	\$	\$	\$	\$
At 1 January 2002	567,458,312	1,429,912,675	(2,101,156)	239,412,327	2,234,682,158
Dividends approved in respect of the previous year (note 10(b))	—	—	—	(44,565,906)	(44,565,906)
Shares issued	—	200,072,950	—	—	200,072,950
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	—	—	4,111,488	—	4,111,488
Profit for the year	—	—	—	115,422,653	115,422,653
Dividends declared in respect of the current year (note 10(a))	—	—	—	(19,876,374)	(19,876,374)
At 31 December 2002	<u>567,458,312</u>	<u>1,629,985,625</u>	<u>2,010,332</u>	<u>290,392,700</u>	<u>2,489,846,969</u>
At 1 January 2001	567,458,312	282,571,108	—	60,576,203	910,605,623
Dividends approved in respect of the previous year (note 10(b))	—	—	—	(35,982,560)	(35,982,560)
Shares issued	—	1,147,341,567	—	—	1,147,341,567
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	—	—	(2,101,156)	—	(2,101,156)
Profit for the year	—	—	—	230,228,994	230,228,994
Dividends declared in respect of the current year (note 10(a))	—	—	—	(15,410,310)	(15,410,310)
At 31 December 2001	<u>567,458,312</u>	<u>1,429,912,675</u>	<u>(2,101,156)</u>	<u>239,412,327</u>	<u>2,234,682,158</u>

Capital reserve arose from the exchange of shares on the group reorganisation dated 26 May 2000 represents the differences 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 FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 RESERVES (Continued)

(b) The Company

	Share premium \$	Retained profits \$	Total \$
At 1 January 2002	1,429,912,675	182,204,042	1,612,116,717
Dividends approved in respect of the previous year (note 10(b))	—	(44,565,906)	(44,565,906)
Shares issued	200,072,950	—	200,072,950
Loss for the year	—	(5,072,125)	(5,072,125)
Dividends declared in respect of the current year (note 10(a))	—	(19,876,374)	(19,876,374)
	<u>1,629,985,625</u>	<u>112,689,637</u>	<u>1,742,675,262</u>
At 31 December 2002			
At 1 January 2001	282,571,108	42,406,724	324,977,832
Dividends approved in respect 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 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			

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 ACQUISITIONS OF A SUBSIDIARY AND ASSOCIATES

(a) Acquisition of a subsidiary

In 2002, the Group acquired the entire equity interest in CIGAML. In 2001, the Group acquired 50.05% of equity interest in TPL.

	2002	2001
	\$	\$
Net assets acquired		
Fixed assets	806,350	—
Investments in securities	158,689,117	—
Other debtors, deposits and prepayments	2,489,922	—
Cash and cash equivalents	36,640,834	470,267,506
Amount due to group companies	(156,624,900)	—
Other creditors, accrued charges and temporary receipts	(214,203)	—
Tax payable	(5,646,949)	—
Minority interest	—	(234,898,619)
	<u>36,140,171</u>	<u>235,368,887</u>
Net identifiable assets and liabilities	36,140,171	235,368,887
Goodwill arising on consolidation (note 14)	368,873,598	186,484,691
	<u>405,013,769</u>	<u>421,853,578</u>
Satisfied by:		
Cash paid	203,437,669	227,735,124
Shares issued	201,576,100	194,118,454
	<u>405,013,769</u>	<u>421,853,578</u>
Purchase price paid, satisfied in cash	203,437,669	227,735,124
Less: Cash of the subsidiary acquired	(36,640,834)	(470,267,506)
	<u>166,796,835</u>	<u>(242,532,382)</u>
Net cash outflow/(inflow) in respect of the purchase of a subsidiary	<u>166,796,835</u>	<u>(242,532,382)</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 ACQUISITIONS OF A SUBSIDIARY AND ASSOCIATES (Continued)

(b) Acquisition of associates

In 2001, the Group acquired 30.05% and 25% of equity interest in TPI and Huatai, respectively.

	2001
	\$
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	170,094,340
	<u>220,142,976</u>

35 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:

	2002	2001
	\$	\$
Contracted for	—	6,092,343
Authorised but not contracted for	—	—
	<u>—</u>	<u>6,092,343</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35 COMMITMENTS (Continued)

- (b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2002	2001
	\$	\$
Within 1 year	23,940,315	12,705,895
After 1 year but within 5 years	24,762,688	25,738,926
	<u>48,703,003</u>	<u>38,444,821</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.

36 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 £2,100,000. Part of the investment of £10,000 was invested in cash and is accounted for as other investments in the financial statements. The remaining amount of £2,090,000 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 with the bank (note 21). The maximum loss attributable to the holders of the loan stocks is the total investment amount.
- (ii) A claim has been made against a subsidiary of the Company by the liquidator of an insurer in relation to a commutation payment of US\$3,000,000 received by the subsidiary in 1999. The liquidator alleges that the repayment was either an unfair preference or an uncommercial transaction and demanded the repayment of US\$3,000,000 plus interest thereon.

After having evaluated all relevant factors and taken legal advice, the directors consider the subsidiary has good prospects of successfully defending the claim. No provision has therefore been made.

- (iii) As at 31 December 2002, other than those in the normal course of the Group's insurance business, there was no outstanding litigation.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37 MATERIAL RELATED PARTY TRANSACTIONS

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

	Note	2002 \$	2001 \$
Recurring transactions			
Business ceded by related companies:	(i)		
Gross premiums written		244,649,638	182,394,374
Commission expenses paid		66,618,150	50,855,604
Business retroceded to related companies:	(ii)		
Outward retrocession premiums		61,540	136,683
Commission income received		332	325,873
Investment management fee and redemption income	(iii)	27,621,779	—
Interest income received on			
Premium deposits placed	(iv)	310,127	298,575
Funds in an insurance pool	(v)	286,668	821,582
Securities brokerage fee paid	(vi)	477,637	683,927
Service fee income received	(v)	28,459	36,511
IT consultation service income received	(vii)	262,000	190,000
Contributions to retirement schemes	(viii)	1,844,135	1,519,062
Travel agency service fee paid	(ix)	334,914	365,488
Insurance expenses covering business risk	(x)	298,771	126,864
Finance costs paid	(xi)	2,542,710	—
Non-recurring transactions			
Acquisition of an associate	(xii)	—	1,164,000
Acquisition of a subsidiary	(xiii)	403,200,000	522,405,661
Acquisition of an associate	(xiv)	—	300,707,547

Notes:

- (i) Certain fellow subsidiaries of the Group and certain branches of the ultimate holding company ceded business to and received commission from a subsidiary of the Company.
- (ii) A subsidiary of the Company retroceded business to and received commission from certain fellow subsidiaries of the Group.
- (iii) A subsidiary of the Company provided investment consultancy services to and received investment management fee and redemption income from certain fellow subsidiaries of the Group.
- (iv) A subsidiary of the Company placed premium deposits in certain fellow subsidiaries of the Group and certain branches of the ultimate holding company and received interest income from them.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (v) A fellow subsidiary 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 Company 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.
- (vi) The Company and certain subsidiaries of the Group has entered into agreements with a fellow subsidiary 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.
- (vii) A subsidiary of the Company provided IT consultation services to and received service fees from the immediate holding company and a fellow subsidiary of the Group.
- (viii) Employees of the Company and certain subsidiaries of the Group participated in a defined contribution retirement scheme and Mandatory Provident Funds scheme managed by a fellow subsidiary of the Group.
- (ix) A fellow subsidiary of the Company provided travel agency services to the Company and certain subsidiaries of the Group and charged fees for services rendered.
- (x) The Company and certain subsidiaries of the Group entered into a number of insurance policies with certain fellow subsidiaries of the Group to cover their business risks in relation to fire, motor vehicle, personal accident, workmen compensation, group life and medical electronic equipment and professional indemnity.
- (xi) A subsidiary of the Group has borrowed a loan from a fellow subsidiary which bears interest at LIBOR plus 0.6%. The loan is unsecured and repayable on demand (note 19).
- (xii) The Company acquired a 25% equity interest in an insurance agency and consultant service company, from a fellow subsidiary of the Group.
- (xiii) 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 agreed to acquire a 62.5% equity interest in TPL from its ultimate holding company for a total consideration of approximately \$522.4 million.

Pursuant to a meeting of directors on 8 July 2002, the Company acquired from its immediate holding company the entire equity interest in CIGAML for a total consideration of \$403,200,000, comprising a cash consideration of \$201,623,900 and an allotment of 51,620,000 shares at \$3.905 per share.
- (xiv) On 26 November 2001, the Company entered into a sale and purchase agreement with the ultimate holding company and TPI, pursuant to which the Company 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38 COMPARATIVE FIGURES

Certain presentation changes have been made as a result of the adoption of SSAP 15 (revised) "Cash flow statements" issued by the HKSA, which are effective for accounting periods commencing on or after 1 January 2002.

The Group's business was presented in the 2001 financial statements in the following reportable segments: non-life proportional, non-life non-proportional, life and insurance intermediaries businesses. As of 1 January 2002, as a result of the increased underwriting activity of TPL and the acquisition of CIGAML, the Group's reportable segments became: reinsurance, life insurance, asset management and insurance intermediaries businesses. Senior management considers this presentation will provide a better understanding of the Group's business.

39 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company as at 31 December 2002 to be China Insurance (Holdings) Company, Limited (formerly known as China Insurance Company, Limited) which is established in the PRC.