



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 Hong Kong Financial Reporting Standards (which include 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 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 and derivative financial instruments as explained in the accounting policies set out below.

(c) Use of estimates in the preparation of financial statements

The preparation of financial statements requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the related disclosure. The Group's insurance liabilities comprising insurance funds, provision for outstanding claims and life insurance funds and estimates for premiums and claims data not received from ceding companies at the date of the financial statements. The Group determines these estimates on the basis of historical information, actuarial analyses, financing modelling and other analytical techniques. The directors continually review the estimates and make adjustments as necessary, but actual results could differ significantly from what is envisioned when these estimates are made.

(d) Subsidiaries

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. Investments in controlled subsidiaries are consolidated into the consolidated financial statements.

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.

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1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(l)), 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.

(e) Associates

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

An investment in an associate is accounted for in the 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(f).

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 income statement.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (note 1(l)), 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.

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1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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(l)).

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(l)) is included in the carrying amount of the interest in associates.

(g) 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) Provisions against the carrying value of held-to-maturity 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.
- (iii) 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.
- (iv) 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Sales and repurchase agreements

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 term of the agreement 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 as an asset. 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 term of the agreement on a straight-line basis.

(i) 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 which is assessed annually by external qualified valuers;
- land and buildings, plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (note 1(k)) and impairment losses (note 1(l)).

(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Fixed assets (Continued)

- (iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group 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.

(j) 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 leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(k). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(l). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(t)(ii).

(ii) Operating lease charges

Where the Group 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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) 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 as follows:

Leasehold land	Over the unexpired term of lease
Buildings	30 - 50 years
Computer equipment	3 - 5 years
Other fixed assets	5 years

(l) 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(d) and (e)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such 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).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of assets (Continued)

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is 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.

(m) Recognition of underwriting results

The revenue accounts in respect of reinsurance and life insurance business are prepared on an annual accounting basis and are closed at the end of each accounting year and the balances are transferred to the income statement.

(n) Insurance liabilities

(a) Insurance funds mainly represent provision for unearned premiums for non-life reinsurance business.

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

(b) Provision for outstanding claims represents estimated liabilities relating to the non-life reinsurance and life insurance 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.

(c) Life insurance funds represent reserves to cover mortality fluctuations and future liabilities. 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)

(o) 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.

(p) Trust account

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

(q) 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.
- (iii) When the Group grants employees options to acquire shares of the Company, 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.

(r) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax (Continued)

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

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

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

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

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax (Continued)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Provisions and contingent liabilities

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

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Revenue recognition

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

(i) Premiums income

Reinsurance premiums are recognised when written and include an estimate for written premiums receivable at period end. Such premiums are generally recognised as earned over the contract period in proportion to the amount of reinsurance provided.

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.

(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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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 by reference to the principal outstanding and the rate applicable.

(u) Translation of foreign currencies

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. Exchange gains and losses are dealt with in the income statement.

The results of enterprises 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.

(v) Off-balance sheet financial instruments

Off-balance sheet financial instruments include derivatives arising from foreign exchange transactions undertaken by the Group in the foreign exchange markets.

Such transactions are marked to market and the gain or loss arising is recognised in the income statement.

Unrealised gains on transactions are included in "Trade and other receivables" in the consolidated balance sheet. Unrealised losses on transactions are included in "Trade and other payables" in the consolidated balance sheet.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

(x) Management expenses

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

(y) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(z) 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.

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(Expressed in Hong Kong dollars)

2 TURNOVER

The principal activities of the Group are the underwriting of non-life reinsurance and life insurance businesses. The Group also carries on asset management business, insurance intermediaries business and, to support its reinsurance and life insurance activities, holds securities, investments in money market 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:

	2003 \$'000	2002 restated \$'000
Gross premiums written		
Reinsurance business	1,179,622	1,170,637
Life insurance business	3,079,503	1,556,489
	<u>4,259,125</u>	<u>2,727,126</u>
Income from asset management business	<u>56,169</u>	<u>27,316</u>
Income from insurance intermediaries business	<u>14,661</u>	<u>15,324</u>
	<u>4,329,955</u>	<u>2,769,766</u>

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3 OTHER REVENUE AND NET INCOME/(LOSS)

	2003 \$'000	2002 \$'000
Other revenue		
Dividend income from listed securities	10,790	5,319
Dividend income from unlisted securities	1,369	355
Interest income from listed securities	151,602	86,388
Interest income from unlisted securities	21,636	15,857
Other interest income	46,019	36,664
Rentals receivable from operating leases	4,099	3,474
Others	8,761	1,417
	<u>244,276</u>	<u>149,474</u>
Other net income/(loss)		
Net loss on sale of fixed assets	(21)	(392)
Deficit on revaluation of investment properties	(5,523)	(4,592)
Net realised and unrealised gains/(losses) on listed securities	164,627	(43,739)
Net realised and unrealised (losses)/gains on unlisted securities	(2,072)	1,870
Amortisation of (premiums)/discounts of dated debt securities	(1,756)	7,111
Amortisation of discounts of interest-bearing notes	(170)	—
Provision for diminution in value of listed securities	(10,526)	(15,920)
Provision for diminution in value of unlisted securities	—	(2,332)
Write back of provision for diminution in value of unlisted securities	2,321	2,817
Others	4,402	90
	<u>151,282</u>	<u>(55,087)</u>

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4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging:

	2003 \$'000	2002 \$'000
(a) Finance costs:		
Interest on other loans	<u>19,838</u>	<u>3,161</u>
(b) Staff costs:		
Contributions to defined contribution plan	15,629	4,095
Salaries, wages and other benefits	<u>163,664</u>	<u>103,703</u>
	<u>179,293</u>	<u>107,798</u>
(c) Other items:		
Amortisation of goodwill	27,767	18,531
Amortisation of goodwill included in share of losses less profits of associates	3,745	3,745
Auditors' remuneration		
— audit services	1,931	1,185
— tax services	258	62
— other services	203	189
Depreciation	17,021	8,325
Operating lease charges: minimum lease payments in respect of properties	40,091	11,937
Issue costs in respect of interest-bearing notes issued	<u>10,424</u>	<u>—</u>

NOTES ON THE FINANCIAL STATEMENTS

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5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003	2002 restated
	\$'000	\$'000
Current tax — Provision for Hong Kong Profits Tax		
Tax for the year	24,052	7,445
Over-provision in respect of prior years	(823)	(32,438)
	<u>23,229</u>	<u>(24,993)</u>
Current tax — Outside Hong Kong		
Tax for the year	—	—
Over-provision in respect of prior years	—	(7,519)
	<u>—</u>	<u>(7,519)</u>
Deferred tax		
Origination and reversal of temporary differences	200	316
Effect of increase in tax rate on deferred tax balances at 1 January	(311)	—
	<u>(111)</u>	<u>316</u>
Share of associates' taxation	<u>201</u>	<u>226</u>
	<u>23,319</u>	<u>(31,970)</u>

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at the standard tax rate of 17.5% (2002: 16%) on its estimated assessable profits from reinsurance, asset management and insurance intermediaries 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 at 8.75% (2002: 8%).

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

NOTES ON THE FINANCIAL STATEMENTS

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5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2003 \$'000	2002 \$'000
Profit before tax	<u>82,280</u>	<u>103,267</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	(10,982)	1,155
Tax effect of non-deductible expenses	65,024	34,370
Tax effect of non-taxable revenue	(46,562)	(30,080)
Tax effect of unused tax losses not recognised	16,944	11,269
Tax effect of prior years' tax losses utilised this year	(172)	(8,953)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	(311)	—
Over-provision in prior years	<u>(823)</u>	<u>(39,957)</u>
	<u>23,118</u>	<u>(32,196)</u>
Share of associates' taxation	<u>201</u>	<u>226</u>
Actual tax expense	<u>23,319</u>	<u>(31,970)</u>

NOTES ON THE FINANCIAL STATEMENTS

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6 DIRECTORS' REMUNERATION

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

	2003 \$'000	2002 \$'000
Fees	400	400
Salaries and other emoluments	6,502	4,697
Discretionary bonuses	1,764	148
Retirement scheme contributions	478	417
	<u>9,144</u>	<u>5,662</u>

Included in the directors' remuneration were fees of \$400,000 (2002: \$400,000) paid to the independent non-executive directors during the year.

In addition to the above remuneration, certain directors were granted share options under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the directors' report and note 32.

The remuneration of the directors is within the following bands:

\$	2003 Number of directors	2002 Number of directors
Nil — 1,000,000	6	8
1,000,001 — 1,500,000	1	1
1,500,001 — 2,000,000	1	1
2,000,001 — 2,500,000	1	—
2,500,001 — 3,000,000	1	—
	<u>1</u>	<u>—</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2002: four) are directors whose emoluments are disclosed in note 6. The emoluments in respect of the other individual are as follows:

	2003 \$'000	2002 \$'000
Salaries and other emoluments	660	678
Discretionary bonuses	227	153
Retirement scheme contributions	96	96
	<u>983</u>	<u>927</u>

The emoluments of the individual with the highest emoluments are within the following bands:

\$	2003 Number of Individuals	2002 Number of individuals
Nil - 1,000,000	<u>1</u>	<u>1</u>

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$39,825,000 (2002: loss of \$5,072,000) which has been dealt with in the financial statements of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 DIVIDENDS

(a) Dividends attributable to the year

	2003 \$'000	2002 \$'000
Interim dividend declared and paid of 1.2 cents per share (2002: 1.5 cents per share)	15,935	19,876
Final dividend proposed after the balance sheet date of 1.2 cents per share (2002: 1.5 cents per share)	<u>15,977</u>	<u>19,881</u>
	<u>31,912</u>	<u>39,757</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

	2003 \$'000	2002 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 1.5 cents per share (2002: 3.5 cents per share)	<u>19,889</u>	<u>44,566</u>

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$140,753,000 (2002 restated: \$180,390,000) and the weighted average of 1,326,609,342 ordinary shares (2002: 1,286,101,259 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 ordinary shareholders of \$140,753,000 (2002 restated: \$180,390,000) and the weighted average number of ordinary shares of 1,340,613,873 shares (2002: 1,300,941,191 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

10 EARNINGS PER SHARE (Continued)

(c) Reconciliations

	2003 Number of shares	2002 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,326,609,342	1,286,101,259
Deemed issue of ordinary shares for no consideration	<u>14,004,531</u>	<u>14,839,932</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>1,340,613,873</u></u>	<u><u>1,300,941,191</u></u>

11 CHANGES IN ACCOUNTING POLICIES

(i) Recognition of underwriting results

During 2003, the Group changed its accounting policy in respect of recognition of underwriting results.

In prior years, the revenue accounts for the non-life reinsurance business were prepared on the fund accounting basis, under which premiums, claims and expenses were carried forward and profit recognition was delayed until the end of the third accounting year. Any underwriting losses were recognised as soon as they were foreseen.

With effect from 1 January 2003, the Group has adopted the annual accounting basis for its non-life reinsurance business. Under the annual accounting basis, the revenue account for each underwriting year is closed at the end of each accounting year and the underwriting result is transferred to the income statement. The directors believe that this change of policy will allow the Group to conform with the best practice of the industry and international standards.

As a result of the adoption of this accounting policy, the Group's profit for the year increased by \$46,991,000 (2002: \$65,311,000) and the Group's net assets as at 31 December 2003 increased by \$68,450,000 (2002: \$21,459,000).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 CHANGES IN ACCOUNTING POLICIES (Continued)

(ii) Income taxes

In prior years, deferred tax liabilities were 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 were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group has adopted a new policy for deferred tax as set out in note 1(r). As a result of the adoption of this accounting policy, the Group's profit for the year increased by \$111,000 (2002: decreased by \$344,000) and the net assets as at the year end increased by \$3,064,000 (2002: \$2,953,000).

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and reserves and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

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:

- Reinsurance business comprises non-life and life reinsurance businesses.
- Life insurance business comprises direct life insurance businesses.
- Asset management business comprises investment consultancy businesses.
- Insurance intermediaries business comprises reinsurance brokerage and agency and consultancy businesses.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2003

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Total \$'000
Turnover							
Revenue from external customers	1,179,622	3,079,503	56,169	14,661	—	—	4,329,955
Inter-segment revenue	—	—	1,515	1,977	(3,492)	—	—
	<u>1,179,622</u>	<u>3,079,503</u>	<u>57,684</u>	<u>16,638</u>	<u>(3,492)</u>	<u>—</u>	<u>4,329,955</u>
Amount transferred from/(to) revenue account							
Segment result	40,352	(121,711)	57,684	16,638	—	—	(7,037)
Inter-segment transactions	<u>3,283</u>	<u>—</u>	<u>(1,515)</u>	<u>(1,977)</u>	<u>—</u>	<u>—</u>	<u>(209)</u>
	<u>43,635</u>	<u>(121,711)</u>	<u>56,169</u>	<u>14,661</u>	<u>—</u>	<u>—</u>	<u>(7,246)</u>
Other revenue							
Dividend income	8,065	2,698	9	293	—	1,094	12,159
Interest income from bond investments	77,861	71,414	15,409	—	—	8,554	173,238
Others	<u>13,285</u>	<u>41,342</u>	<u>965</u>	<u>762</u>	<u>—</u>	<u>30,650</u>	<u>87,004</u>
	99,211	115,454	16,383	1,055	—	40,298	272,401
Inter-segment transactions	<u>(300)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(27,825)</u>	<u>(28,125)</u>
	<u>98,911</u>	<u>115,454</u>	<u>16,383</u>	<u>1,055</u>	<u>—</u>	<u>12,473</u>	<u>244,276</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 2003 (Continued)

	Reinsurance	Life insurance	Asset management	Insurance intermediaries business	Inter-segment elimination	Unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Other net income/(loss)							
Net gains from equity investments, unit trusts and mutual funds	88,672	21	14,000	3,180		7,626	113,499
Net gains from bond investments	6,359	19,464	1,514	—		11,758	39,095
Others	(3,870)	—	—	—		2,558	(1,312)
	<u>91,161</u>	<u>19,485</u>	<u>15,514</u>	<u>3,180</u>		<u>21,942</u>	<u>151,282</u>
Expenditure relating to non-underwriting activities							
Administrative expenses	(15,601)	(183,372)	(25,882)	(4,754)		(26,722)	(256,331)
Net exchange gains/(losses)	25,905	1,795	(836)	(478)		1,403	27,789
	<u>10,304</u>	<u>(181,577)</u>	<u>(26,718)</u>	<u>(5,232)</u>		<u>(25,319)</u>	<u>(228,542)</u>
Inter-segment transactions	907	—	—	300		1,515	2,722
	<u>11,211</u>	<u>(181,577)</u>	<u>(26,718)</u>	<u>(4,932)</u>		<u>(23,804)</u>	<u>(225,820)</u>
Profit/(loss) from operations							
	<u>244,918</u>	<u>(168,349)</u>	<u>61,348</u>	<u>13,964</u>		<u>10,611</u>	<u>162,492</u>
Share of profits/(losses) of associates	—	—	—	345		(60,719)	(60,374)
Finance costs	(3)	(4,693)	(3,926)	—		(11,216)	(19,838)

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

12 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2003 (Continued)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Total \$'000
Profit/(loss) from ordinary activities before taxation	244,915	(173,042)	57,422	14,309		(61,324)	82,280
Taxation	(10,888)	—	(10,069)	(2,362)		—	(23,319)
Profit/(loss) from ordinary activities after taxation	234,027	(173,042)	47,353	11,947		(61,324)	58,961
Minority interests	—	81,792	—	—		—	81,792
Profit/(loss) attributable to shareholders	<u>234,027</u>	<u>(91,250)</u>	<u>47,353</u>	<u>11,947</u>		<u>(61,324)</u>	<u>140,753</u>
Depreciation and amortisation for the year	<u>2,499</u>	<u>(27,100)</u>	<u>(20,059)</u>	<u>(158)</u>		<u>(5,641)</u>	<u>(50,459)</u>
Significant non-cash expenses (other than depreciation and amortisation)	<u>53,147</u>	<u>19,478</u>	<u>15,951</u>	<u>1,704</u>		<u>4,770</u>	<u>95,050</u>
At 31 December 2003							
Equity investments, unit trusts and mutual funds	210,080	330,460	195,681	2,515		141,747	880,483
Bond investments	1,500,634	2,862,600	1,378,424	—		16,534	5,758,192
Other segment assets	1,339,608	1,936,176	369,929	38,648		233,529	3,917,890
Interest in associates	—	—	—	6,626		121,052	127,678
Total assets	<u>3,050,322</u>	<u>5,129,236</u>	<u>1,944,034</u>	<u>47,789</u>		<u>512,862</u>	<u>10,684,243</u>
Total liabilities	<u>(1,799,132)</u>	<u>(4,318,827)</u>	<u>(132,719)</u>	<u>(1,620)</u>		<u>(1,430,572)</u>	<u>(7,682,870)</u>
Capital expenditure incurred during the year	<u>1,185</u>	<u>48,307</u>	<u>82</u>	<u>248</u>		<u>111</u>	<u>49,933</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 (restated)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Total \$'000
Turnover							
Revenue from external customers	1,170,637	1,556,489	27,316	15,324	—	—	2,769,766
Inter-segment revenue	—	—	306	1,737	(2,043)	—	—
	<u>1,170,637</u>	<u>1,556,489</u>	<u>27,622</u>	<u>17,061</u>	<u>(2,043)</u>	<u>—</u>	<u>2,769,766</u>
Amount transferred from/(to) revenue account							
Segment result	147,360	(33,284)	27,622	17,061	—	—	158,759
Inter-segment transactions	3,951	—	(306)	(1,737)	—	—	1,908
	<u>151,311</u>	<u>(33,284)</u>	<u>27,316</u>	<u>15,324</u>	<u>—</u>	<u>—</u>	<u>160,667</u>
Other revenue							
Dividend income	4,985	—	—	179	—	510	5,674
Interest income from bond investments	77,569	6,114	7,785	—	—	10,777	102,245
Others	14,479	19,690	297	849	—	12,387	47,702
	<u>97,033</u>	<u>25,804</u>	<u>8,082</u>	<u>1,028</u>	<u>—</u>	<u>23,674</u>	<u>155,621</u>
Inter-segment transactions	(300)	—	—	—	—	(5,847)	(6,147)
	<u>96,733</u>	<u>25,804</u>	<u>8,082</u>	<u>1,028</u>	<u>—</u>	<u>17,827</u>	<u>149,474</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 (restated) (Continued)

	Reinsurance	Life insurance	Asset management	Insurance intermediaries business	Inter-segment elimination	Unallocated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Other net income/(loss)							
Net losses from equity investments, unit trusts and mutual funds	(63,742)	(5,926)	(108)	(600)		(6,556)	(76,932)
Net gains/(losses) from bond investments	20,094	(806)	(945)	—		8,396	26,739
Others	(4,578)	(266)	—	—		(50)	(4,894)
	<u>(48,226)</u>	<u>(6,998)</u>	<u>(1,053)</u>	<u>(600)</u>		<u>1,790</u>	<u>(55,087)</u>
Expenditure relating to non-underwriting activities							
Administrative expenses	(14,034)	(84,748)	(12,737)	(4,246)		(14,131)	(129,896)
Net exchange gains/(losses)	8,639	152	—	(25)		251	9,017
	<u>(5,395)</u>	<u>(84,596)</u>	<u>(12,737)</u>	<u>(4,271)</u>		<u>(13,880)</u>	<u>(120,879)</u>
Inter-segment transactions	907	—	—	300		306	1,513
	<u>(4,488)</u>	<u>(84,596)</u>	<u>(12,737)</u>	<u>(3,971)</u>		<u>(13,574)</u>	<u>(119,366)</u>
Profit/(loss) from operations	<u>195,330</u>	<u>(99,074)</u>	<u>21,608</u>	<u>11,781</u>		<u>6,043</u>	<u>135,688</u>
Share of profits/(losses) of associates	—	—	—	367		(29,627)	(29,260)
Finance costs	—	(618)	(2,543)	—		—	(3,161)

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 (restated) (Continued)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter- segment elimination \$'000	Unallocated \$'000	Total \$'000
Profit/(loss) from ordinary activities before taxation	195,330	(99,692)	19,065	12,148		(23,584)	103,267
Taxation	4,323	—	(4,226)	(1,780)		33,653	31,970
Profit/(loss) from ordinary activities after taxation	199,653	(99,692)	14,839	10,368		10,069	135,237
Minority interests	—	45,153	—	—		—	45,153
Profit/(loss) attributable to shareholders	<u>199,653</u>	<u>(54,539)</u>	<u>14,839</u>	<u>10,368</u>		<u>10,069</u>	<u>180,390</u>
Depreciation and amortisation for the year	<u>7,801</u>	<u>(14,180)</u>	<u>(10,633)</u>	<u>(118)</u>		<u>(6,360)</u>	<u>(23,490)</u>
Significant non-cash expenses (other than depreciation and amortisation)	<u>(56,548)</u>	<u>(5,649)</u>	<u>(84)</u>	<u>(716)</u>		<u>(1,214)</u>	<u>(64,211)</u>
At 31 December 2002							
Equity investments, unit trusts and mutual funds	205,361	50,787	1,142	8,504		34,441	300,235
Bond investments	1,093,827	831,032	161,174	—		197,117	2,283,150
Other segment assets	1,337,563	1,553,116	442,544	20,689		317,483	3,671,395
Interest in associates	—	—	—	6,483		181,770	188,253
Total assets	<u>2,636,751</u>	<u>2,434,935</u>	<u>604,860</u>	<u>35,676</u>		<u>730,811</u>	<u>6,443,033</u>
Total liabilities	<u>(1,593,583)</u>	<u>(1,902,764)</u>	<u>(183,886)</u>	<u>(1,105)</u>		<u>(2,012)</u>	<u>(3,683,350)</u>
Capital expenditure incurred during the year	<u>585</u>	<u>99,197</u>	<u>1,607</u>	<u>43</u>		<u>209</u>	<u>101,641</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 2003

	Hong Kong and Macau \$'000	PRC (other than Hong Kong and Macau) \$'000	Japan \$'000	Rest of Asia \$'000	Europe \$'000	Rest of the world \$'000	Total \$'000
Revenue from external customers	478,133	3,214,998	83,153	288,999	191,954	72,718	4,329,955
Segment assets	5,427,329	5,256,914	—	—	—	—	10,684,243
Capital expenditure incurred during the year	1,626	48,307	—	—	—	—	49,933

At 31 December 2002 (restated)

	Hong Kong and Macau \$'000	PRC (other than Hong Kong and Macau) \$'000	Japan \$'000	Rest of Asia \$'000	Europe \$'000	Rest of the world \$'000	Total \$'000
Revenue from external customers	513,921	1,685,141	74,236	265,578	161,349	69,541	2,769,766
Segment assets	3,819,844	2,623,189	—	—	—	—	6,443,033
Capital expenditure incurred during the year	2,444	99,197	—	—	—	—	101,641

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS

(a) The Group

	Land and buildings \$'000	Furniture and fixtures \$'000	Computer equipment \$'000	Motor vehicles \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
Cost or valuation:							
At 1 January 2003	223,115	20,264	19,769	11,256	274,404	110,358	384,762
Additions	7,316	15,198	23,682	3,737	49,933	—	49,933
Disposals	—	(353)	(238)	—	(591)	—	(591)
Deficit on revaluation	—	—	—	—	—	(5,523)	(5,523)
At 31 December 2003	<u>230,431</u>	<u>35,109</u>	<u>43,213</u>	<u>14,993</u>	<u>323,746</u>	<u>104,835</u>	<u>428,581</u>
Representing:							
Cost	230,431	35,109	43,213	14,993	323,746	—	323,746
Valuation — 2003	—	—	—	—	—	104,835	104,835
	<u>230,431</u>	<u>35,109</u>	<u>43,213</u>	<u>14,993</u>	<u>323,746</u>	<u>104,835</u>	<u>428,581</u>
Accumulated depreciation:							
At 1 January 2003	82,298	11,260	9,923	1,712	105,193	—	105,193
Charge for the year	3,735	3,468	7,046	2,772	17,021	—	17,021
Written back on disposal	—	(306)	(199)	—	(505)	—	(505)
At 31 December 2003	<u>86,033</u>	<u>14,422</u>	<u>16,770</u>	<u>4,484</u>	<u>121,709</u>	<u>—</u>	<u>121,709</u>
Net book value:							
At 31 December 2003	<u>144,398</u>	<u>20,687</u>	<u>26,443</u>	<u>10,509</u>	<u>202,037</u>	<u>104,835</u>	<u>306,872</u>
At 31 December 2002	<u>140,817</u>	<u>9,004</u>	<u>9,846</u>	<u>9,544</u>	<u>169,211</u>	<u>110,358</u>	<u>279,569</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 FIXED ASSETS (Continued)

(b) The Company

	Furniture and fixtures \$'000	Motor vehicles \$'000	Total \$'000
Cost:			
At 1 January 2003	2,809	1,671	4,480
Additions	111	—	111
Disposals	(31)	—	(31)
	<u>2,889</u>	<u>1,671</u>	<u>4,560</u>
At 31 December 2003	2,889	1,671	4,560
Accumulated depreciation:			
At 1 January 2003	1,113	441	1,554
Charge for the year	562	341	903
Written back on disposal	(13)	—	(13)
	<u>1,662</u>	<u>782</u>	<u>2,444</u>
At 31 December 2003	1,662	782	2,444
Net book value:			
At 31 December 2003	<u>1,227</u>	<u>889</u>	<u>2,116</u>
At 31 December 2002	<u>1,696</u>	<u>1,230</u>	<u>2,926</u>

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

	The Group	
	2003 \$'000	2002 \$'000
In Hong Kong		
— Long leases	111,605	113,289
— Medium-term leases	10,234	11,604
Outside Hong Kong		
— Long leases	33,730	119,862
— Medium-term leases	93,664	6,420
	<u>249,233</u>	<u>251,175</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 2003 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 calculated by reference to net rental income allowing for reversionary income potential. The revaluation deficit of \$5,523,000 (2002: \$4,592,000) has been recognised in the income statement (note 3).
- (e) The Group leases out investment properties under operating leases. The leases typically run for an initial period of two 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 \$67,520,000 (2002: \$73,140,000).

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

	2003	2002
	\$'000	\$'000
Within 1 year	4,013	3,242
After 1 but within 5 years	3,558	1,307
	7,571	4,549

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 GOODWILL

	\$'000
Cost:	
At 1 January and 31 December 2003	555,358
Accumulated amortisation:	
At 1 January 2003	21,639
Amortisation for the year	27,767
At 31 December 2003	49,406
Carrying amount:	
At 31 December 2003	505,952
At 31 December 2002	533,719

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

	2003 \$'000	2002 \$'000
Unlisted shares, at cost	<u>1,096,583</u>	<u>860,409</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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

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

Name of company	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	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))	PRC	RMB 1,000,000,000	50.05%	—	50.05%	Life insurance business
Quicken Assets Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$1	100%	100%	—	Property holding
Effectual Assets Limited	BVI	US\$20	100%	100%	—	Investment holding
Influential Assets Limited	BVI	US\$20	100%	100%	—	Investment holding

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	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	held by subsidiary	
Share China Assets Limited	BVI	US\$1	100%	100%	—	Dormant
CIIH (BVI) Limited	BVI	US\$1	100%	100%	—	Financing
Bradford Management Investments (BVI) Limited	BVI	US\$1	100%	100%	—	Dormant
Chester Investments Resources (BVI) Limited	BVI	US\$1	100%	100%	—	Dormant
Pine Tree Investments Resources (BVI) Limited	BVI	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	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Unlisted shares, at cost	—	—	220,323	220,323
Share of net assets	61,062	117,892	—	—
Goodwill	66,616	70,361	—	—
	<u>127,678</u>	<u>188,253</u>	<u>220,323</u>	<u>220,323</u>

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	RMB 500,000,000	30.05%	30.05%	Non-life insurance
Huatai Insurance Agency & Consultant Service Ltd	Incorporated	PRC	RMB 23,281,000	25%	25%	Insurance agency and consultancy

The above companies are PRC limited companies.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN SECURITIES

(a) The Group

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
At 31 December 2003						
Held-to-maturity debt securities						
Listed outside Hong Kong	802,587	97,123	1,831,658	1,236,094	10,172	3,977,634
Unlisted	113,184	7,535	674,468	344,463	—	1,139,650
	<u>915,771</u>	<u>104,658</u>	<u>2,506,126</u>	<u>1,580,557</u>	<u>10,172</u>	<u>5,117,284</u>
Other investments						
Listed debt securities						
— outside Hong Kong	—	—	216,367	175,691	—	392,058
Listed equity securities						
— in Hong Kong	—	23,053	45,715	317,418	3,239	389,425
— outside Hong Kong	—	—	26,043	105,372	—	131,415
Listed unit trusts and mutual funds						
— outside Hong Kong	—	—	—	17,951	330,460	348,411
Unlisted debt securities	—	—	31,052	217,798	—	248,850
Unlisted equity securities	—	—	—	11,232	—	11,232
	<u>—</u>	<u>23,053</u>	<u>319,177</u>	<u>845,462</u>	<u>333,699</u>	<u>1,521,391</u>
	<u>915,771</u>	<u>127,711</u>	<u>2,825,303</u>	<u>2,426,019</u>	<u>343,871</u>	<u>6,638,675</u>
Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date)	<u>804,604</u>	<u>130,586</u>	<u>2,138,121</u>	<u>1,851,398</u>	<u>343,567</u>	<u>5,268,276</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN SECURITIES (Continued)

(a) The Group (Continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
At 31 December 2002						
Held-to-maturity debt securities						
Listed:						
— in Hong Kong	—	3,878	35,837	—	—	39,715
— outside Hong Kong	777,477	172,736	363,686	385,550	7,132	1,706,581
	777,477	176,614	399,523	385,550	7,132	1,746,296
Unlisted	65,636	77,247	45,464	78,142	—	266,489
	843,113	253,861	444,987	463,692	7,132	2,012,785
Other investments						
Listed debt securities						
— outside Hong Kong	5,922	22,733	113,259	105,509	—	247,423
Listed equity securities						
— in Hong Kong	—	247	39,386	130,160	6,336	176,129
— outside Hong Kong	—	—	6,601	37,528	—	44,129
Listed unit trusts and mutual funds						
— outside Hong Kong	—	—	—	68,758	—	68,758
Unlisted debt securities	—	—	22,942	—	—	22,942
Unlisted equity securities	—	—	—	11,219	—	11,219
	5,922	22,980	182,188	353,174	6,336	570,600
	849,035	276,841	627,175	816,866	13,468	2,583,385
Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date)	792,297	214,344	578,522	742,155	13,728	2,341,046

During the year, held-to-maturity securities with an amortised cost of \$308,887,000 were disposed of at a profit of \$9,825,000 as a result of the Group's assets and liabilities matching review.

The held-to-maturity debt securities include an amount of \$106,222,000 (2002: \$94,458,000) which are due to mature within one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INVESTMENTS IN SECURITIES (Continued)

(b) The Company

	2003 \$'000	2002 \$'000
Held-to-maturity debt securities		
Listed:		
— in Hong Kong	—	3,878
— outside Hong Kong	—	69,870
Other investments		
Listed debt securities		
— outside Hong Kong	16,535	100,427
Listed equity securities		
— in Hong Kong	96,392	30,271
— outside Hong Kong	45,354	4,170
Unlisted debt securities	—	22,942
Unlisted equity securities	—	—
	<u>158,281</u>	<u>231,558</u>
Market value of listed securities (including listed held-to-maturity securities maturing within one year of the balance sheet date)	<u>158,281</u>	<u>212,363</u>

The Group's unlisted equity securities include an investment of \$8,000,000 (2002: \$8,000,000), representing a 20% (2002: 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.

During the year, held-to-maturity securities with an amortised cost of \$73,748,000 were disposed of at a profit of \$8,743,000 as a result of the Group's assets and liabilities matching review.

18 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 AMOUNTS DUE FROM/(TO) GROUP COMPANIES

(a) Due from group companies

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Amount due from the immediate holding company	179	264	179	183
Amounts due from subsidiaries	—	—	1,583,941	237,864
Amount due from an associate	58	29	58	—
Amounts due from fellow subsidiaries	3,256	6,075	—	—
	<u>3,493</u>	<u>6,368</u>	<u>1,584,178</u>	<u>238,047</u>

(b) Due to group companies

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Amount due to the immediate holding company	184	13	—	—
Amounts due to subsidiaries	—	—	1,351,209	—
Amounts due to fellow subsidiaries	129,336	173,883	—	144
	<u>129,520</u>	<u>173,896</u>	<u>1,351,209</u>	<u>144</u>

The amounts due to fellow subsidiaries include an amount of \$129,336,000 (2002: \$172,904,000) which is unsecured, repayable on demand and bears interest at LIBOR plus 0.6%.

The amounts due from subsidiaries include an amount of \$1,352,123,000 (2002: \$Nil) which is unsecured, repayable within one year, and bears interest at a fixed rate of 5.8%.

The amounts due to subsidiaries include an amount of \$1,351,209,000 (2002: \$Nil) which is unsecured, repayable after more than one year and bears interest at a fixed rate of 6.03%.

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	
	2003	2002 restated	2003	2002
	\$'000	\$'000	\$'000	\$'000
Amounts due from insurance customers and suppliers	291,270	323,343	—	—
Deposits retained by cedants	95,520	121,398	—	—
Other debtors, deposits and prepayments	140,769	85,837	3,218	5,402
Loans and advances	28,997	24,856	—	—
	<u>556,556</u>	<u>555,434</u>	<u>3,218</u>	<u>5,402</u>

All of the trade and other receivables are expected to be recovered within one year (2002 restated: \$548,150,000).

Amounts due from insurance customers and suppliers include amounts due from fellow subsidiaries of \$59,754,000 (2002: \$13,615,000) which are trade related in nature.

Included in trade and other receivables is an amount of \$2,587,000 (2002: \$Nil) which represents unrealised gains on dealing in off-balance sheet financial instruments at the balance sheet date.

Loans and advances are repayable with the following terms:

	2003	2002	Interest rate	Repayment term
	\$'000	\$'000		
Secured loans:				
— to policyholders	4,289	—	4.5%	up to 6 months
Unsecured loans:				
— to a fellow subsidiary	4,830	4,830	free	on demand
— to third parties	19,878	20,026	8%	10 years
	<u>28,997</u>	<u>24,856</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 (net of specific allowances for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2003	2002
		restated
	\$'000	\$'000
Not yet due	180,260	218,175
Current	83,818	75,156
More than 3 months but less than 12 months	14,677	26,931
More than 12 months	12,515	3,081
	<u>291,270</u>	<u>323,343</u>

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

21 PLEDGED DEPOSITS AT BANK

The Group has pledged bank deposits of \$70,603,000 (2002: \$65,558,000) to banks to secure letters of credit issued on behalf of the Group, including that used for the investment in a Lloyd's corporate vehicle (note 39(i)).

22 DEPOSITS AT BANK WITH ORIGINAL MATURITY MORE THAN THREE MONTHS

A subsidiary of the Group has placed \$197,007,000 (2002: \$100,162,000) 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 FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Deposits with banks and other financial institutions with original maturity less than three months	763,563	850,772	128,402	250,395
Cash at bank and in hand	<u>877,902</u>	<u>260,848</u>	<u>43,682</u>	<u>1,879</u>
Cash and cash equivalents in the balance sheet and cash flow statement	<u>1,641,465</u>	<u>1,111,620</u>	<u>172,084</u>	<u>252,274</u>

24 INTEREST-BEARING NOTES

	2003 \$'000	2002 \$'000
US dollar notes due 2013	<u>1,348,577</u>	<u>—</u>

During the year, a subsidiary of the Group ("the Issuer") issued US\$175,000,000 in principal amount of 5.80% notes at a discount. The notes are listed on the Singapore Exchange Securities Trading Limited and will be redeemed on 12 November 2013 at their principal amount. Interest on the notes is payable semi-annually in arrears.

The notes may be redeemed by the Issuer, at its option, at any time at par plus accrued interest, in the event of certain tax changes as described under "Conditions of the Notes — Redemption and Purchase" in the offering circular dated 3 November 2003.

The notes issued are unconditionally and irrevocably guaranteed by the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25 INSURANCE FUNDS

	The Group	
	2003	2002
	\$'000	restated \$'000
Gross	354,611	402,617
Less: Reinsurers' share	<u>(49,872)</u>	<u>(56,643)</u>
	<u>304,739</u>	<u>345,974</u>
Amount to be transferred to the income statement within one year	<u>302,131</u>	<u>344,234</u>

26 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.

27 LIFE INSURANCE FUNDS

	The Group	
	2003	2002
	\$'000	\$'000
Gross	4,131,407	1,421,155
Less: Reinsurers' share	<u>(13,022)</u>	<u>(13,449)</u>
	<u>4,118,385</u>	<u>1,407,706</u>

Included in life insurance funds is an amount of \$136,718,000 (2002: \$16,288,000) which is expected to be transferred to the income statement within one year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 PROVISION FOR OUTSTANDING CLAIMS

	Claims reported \$'000	Incurred but not reported \$'000	Total \$'000
2003			
Gross	1,120,875	680,220	1,801,095
Less: Reinsurers' share	<u>(300,339)</u>	<u>(106,016)</u>	<u>(406,355)</u>
	<u>820,536</u>	<u>574,204</u>	<u>1,394,740</u>
2002 (restated)			
Gross	1,064,721	486,302	1,551,023
Less: Reinsurers' share	<u>(300,897)</u>	<u>(80,316)</u>	<u>(381,213)</u>
	<u>763,824</u>	<u>405,986</u>	<u>1,169,810</u>

Included in provision for outstanding claims is an amount of \$326,020,000 (2002: \$140,980,000) which is expected to be settled within one year.

29 SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

30 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Amounts due to insurance customers and suppliers	53,055	50,950	—	—
Amounts due to insurance intermediaries	25,717	14,317	—	—
Deposits retained from retrocessionaires	26,962	10,572	—	—
Other creditors, accrued charges and temporary receipts	183,007	60,063	69,172	1,853
Prepaid premiums received	79,805	55,973	—	—
	<u>368,546</u>	<u>191,875</u>	<u>69,172</u>	<u>1,853</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 \$1,485,000 (2002: \$589,000) which are trade related in nature.

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

	The Group	
	2003 \$'000	2002 \$'000
Current	19,769	34,261
More than 3 months but less than 12 months	25,039	11,428
More than 12 months	8,247	5,261
	<u>53,055</u>	<u>50,950</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

31 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$20,000. Contributions to the scheme vest immediately.

As stipulated by the labour regulations of the PRC, a subsidiary of the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The subsidiary is required to make contributions to the retirement plans at 22.5% (2002: 22.5%) of the salaries, bonuses and certain allowances of its staff. A member of the plans is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

The Group has no other material obligation for the payment of its staff’s retirement and other post-retirement benefits other than the contributions described above.

32 EQUITY COMPENSATION BENEFITS

Historically, the Company has 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 December 2002 were 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 has been adopted on 7 January 2003.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 EQUITY COMPENSATION BENEFITS (Continued)

(a) Movements in share options

	2003 Number	2002 Number
At 1 January	26,154,000	18,803,000
Issued	156,000	8,690,000
Exercised (note 35)	<u>(2,802,000)</u>	<u>(1,339,000)</u>
At 31 December	<u>23,508,000</u>	<u>26,154,000</u>
Options vested at 31 December	<u>22,411,333</u>	<u>23,960,667</u>

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

Date granted	Exercise period	Exercise price	2003 Number	2002 Number
26 September 2000	26 September 2000 to 27 September 2010	\$1.100	13,220,000	15,530,000
12 February 2001	12 February 2001 to 11 February 2011	\$0.950	1,630,000	1,934,000
12 September 2002	12 September 2002 to 22 September 2012	\$3.225	8,502,000	8,690,000
7 January 2003	7 January 2003 to 6 January 2013	\$3.975	156,000	—
			<u>23,508,000</u>	<u>26,154,000</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

32 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	2003 Number	2002 Number
12 September 2002 to 22 September 2012	\$3.225	—	8,690,000
7 January 2003 to 6 January 2013	\$3.975	156,000	—

(d) Details of share options exercised during the year

Exercise date	Exercise price	Weighted average market value per share immediate before exercise dates	Proceeds received \$'000	Number
January	\$3.225	\$4.300	65	20,000
February	\$0.950	\$4.263	57	60,000
March	\$1.110	\$3.992	194	175,000
April	\$1.110	\$3.864	155	140,000
	\$0.950	\$3.850	95	100,000
May	\$1.110	\$3.550	155	140,000
June	\$1.110	\$3.975	39	35,000
July	\$1.110	\$4.024	1,891	1,704,000
	\$0.950	\$4.348	105	110,000
	\$3.225	\$3.864	239	74,000
October	\$1.110	\$4.900	56	50,000
	\$0.950	\$4.625	32	34,000
	\$3.225	\$4.900	193	60,000
November	\$1.110	\$4.350	73	66,000
	\$3.225	\$4.350	110	34,000
			3,459	2,802,000

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2003	2002 restated
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	24,052	10,826
Provisional Profits Tax paid	(9,444)	(1,152)
	<u>14,608</u>	<u>9,674</u>
Balance of Profits Tax provision relating to prior years	1,807	2,293
Taxation outside Hong Kong	485	593
	<u>16,900</u>	<u>12,560</u>
Amount of taxation payable expected to be settled after more than 1 year	<u>485</u>	<u>593</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation \$'000	Revaluation of properties \$'000	Total \$'000
Deferred tax arising from:			
At 1 January 2002			
— as previously reported	28	—	28
— prior period adjustments	(3,553)	256	(3,297)
	<hr/>	<hr/>	<hr/>
— as restated	(3,525)	256	(3,269)
Charged to consolidated income statement	208	108	316
	<hr/>	<hr/>	<hr/>
At 31 December 2002 (restated)	<u>(3,317)</u>	<u>364</u>	<u>(2,953)</u>
At 1 January 2003			
— as previously reported	—	—	—
— prior period adjustments	(3,317)	364	(2,953)
	<hr/>	<hr/>	<hr/>
— as restated	(3,317)	364	(2,953)
Credited to consolidated income statement	(111)	—	(111)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>(3,428)</u>	<u>364</u>	<u>(3,064)</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

33 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

	2003	2002
	\$'000	restated \$'000
Net deferred tax asset recognised on the balance sheet	3,524	3,458
Net deferred tax liability recognised on the balance sheet	(460)	(505)
	<u>3,064</u>	<u>2,953</u>

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of certain tax losses. Included in the total amount of these tax losses of \$107,236,000 (2002: \$52,022,000), \$73,016,000 (2002: \$28,217,000) can be carried forward up to five years after the year in which the loss was originated to offset future taxable profits. The remaining tax losses do not expire under current tax legislation.

The Company has not recognised deferred tax assets in respect of certain tax losses. The tax losses of \$20,508,000 (2002: \$22,085,000) do not expire under current tax legislation.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATURITY PROFILE

(a) The Group

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
2003							
Assets							
Deposits at bank with original maturity more than 3 months	—	—	48,996	592,636	39,516	—	681,148
Deposits at banks and other financial institutions with original maturity less than 3 months	297,736	465,827	—	—	—	—	763,563
Certificates of deposit held (under held-to- maturity)	—	—	5,020	9,754	10,000	—	24,774
Securities purchased under resale agreements	—	148,277	—	—	—	—	148,277
Pledged deposits at bank	—	41,552	—	29,051	—	—	70,603
Debt securities (under held-to- maturity)	—	52,733	48,469	1,330,030	3,661,278	—	5,092,510
Debt securities (under other investments in securities)	—	—	232,755	125,147	202,302	80,704	640,908
	<u>297,736</u>	<u>708,389</u>	<u>335,240</u>	<u>2,086,618</u>	<u>3,913,096</u>	<u>80,704</u>	<u>7,421,783</u>
Liabilities							
Interest-bearing notes	—	—	—	—	1,348,577	—	1,348,577

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATURITY PROFILE (Continued)

(a) The Group (Continued)

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
2002							
Assets							
Deposits at bank with original maturity more than 3 months	—	—	—	666,872	—	—	666,872
Deposits at banks and other financial institutions with original maturity less than 3 months	4,503	846,269	—	—	—	—	850,772
Certificates of deposit held (under held-to- maturity)	—	—	—	14,714	10,000	—	24,714
Pledged deposits at bank	—	65,558	—	—	—	—	65,558
Securities purchased under resale agreements	—	448,797	—	—	—	—	448,797
Debt securities (under held-to- maturity)	—	23,492	70,966	441,860	1,428,413	23,340	1,988,071
Debt securities (under other investments in securities)	—	—	—	22,142	133,274	114,949	270,365
	<u>4,503</u>	<u>1,384,116</u>	<u>70,966</u>	<u>1,145,588</u>	<u>1,571,687</u>	<u>138,289</u>	<u>4,315,149</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

34 MATURITY PROFILE (Continued)

(b) The Company

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
2003							
Assets							
Deposits at banks and other financial institutions with original maturity less than 3 months	—	128,402	—	—	—	—	128,402
Debt securities (under other investments in securities)	—	—	—	8,694	7,841	—	16,535
	<u>—</u>	<u>128,402</u>	<u>—</u>	<u>8,694</u>	<u>7,841</u>	<u>—</u>	<u>144,937</u>
	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
2002							
Assets							
Deposits at banks and other financial institutions with original maturity less than 3 months	1,001	249,394	—	—	—	—	250,395
Debt securities (under held-to- maturity)	—	—	—	—	50,408	23,340	73,748
Debt securities (under other investments in securities)	—	—	—	22,142	101,227	—	123,369
	<u>1,001</u>	<u>249,394</u>	<u>—</u>	<u>22,142</u>	<u>151,635</u>	<u>23,340</u>	<u>447,512</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

35 SHARE CAPITAL

	2003		2002	
	No. of shares	\$'000	No. of shares	\$'000
Authorised:				
Ordinary shares of \$0.05 each	2,000,000,000	100,000	2,000,000,000	100,000
Issued and fully paid:				
At 1 January	1,325,331,592	66,267	1,272,372,592	63,619
Shares issued (a)	—	—	51,620,000	2,581
Shares issued under share option scheme (b)	2,802,000	140	1,339,000	67
At 31 December	<u>1,328,133,592</u>	<u>66,407</u>	<u>1,325,331,592</u>	<u>66,267</u>

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

- (a) Pursuant to a meeting of directors on 6 September 2002, the directors of the Company approved the issue and allotment of 51,620,000 ordinary shares of \$0.05 each at the price of \$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 shares issued net of related expenses was credited to the share premium account (note 36).
- (b) During the year, options were exercised to subscribe for 2,802,000 (note 32(a)) ordinary shares in the Company at a consideration of \$3,459,000 of which \$140,000 was credited to share capital and the balance of \$3,319,000 was credited to the share premium account.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

36 RESERVES

(a) The Group

	Capital reserve \$'000	Share premium \$'000	Exchange reserves \$'000	Retained profits \$'000	Total \$'000
At 1 January 2003					
— as previously reported	567,458	1,629,986	2,010	290,393	2,489,847
— prior period adjustments arising from changes in accounting policies for:					
— recognition of underwriting results	—	—	—	21,459	21,459
— income taxes	—	—	—	2,953	2,953
— as restated	567,458	1,629,986	2,010	314,805	2,514,259
Dividends approved in respect of the previous year (note 9(b))	—	—	—	(19,889)	(19,889)
Shares issued	—	3,319	—	—	3,319
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	—	—	(10,314)	—	(10,314)
Profit for the year	—	—	—	140,753	140,753
Dividends declared in respect of the current year (note 9(a))	—	—	—	(15,935)	(15,935)
At 31 December 2003	<u>567,458</u>	<u>1,633,305</u>	<u>(8,304)</u>	<u>419,734</u>	<u>2,612,193</u>
At 1 January 2002					
— as previously reported	567,458	1,429,913	(2,101)	239,412	2,234,682
— prior period adjustments arising from changes in accounting policies for:					
— recognition of underwriting results	—	—	—	(43,852)	(43,852)
— income taxes	—	—	—	3,297	3,297
— as restated	567,458	1,429,913	(2,101)	198,857	2,194,127
Dividends approved in respect of the previous year (note 9(b))	—	—	—	(44,566)	(44,566)
Shares issued	—	200,073	—	—	200,073
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	—	—	4,111	—	4,111
Profit for the year (as restated)	—	—	—	180,390	180,390
Dividends declared in respect of the current year (note 9(a))	—	—	—	(19,876)	(19,876)
At 31 December 2002	<u>567,458</u>	<u>1,629,986</u>	<u>2,010</u>	<u>314,805</u>	<u>2,514,259</u>

Capital reserve 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)

36 RESERVES (Continued)

(b) The Company

	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2003	1,629,986	112,689	1,742,675
Dividends approved in respect of the previous year (note 9(b))	—	(19,889)	(19,889)
Shares issued	3,319	—	3,319
Profit for the year	—	39,825	39,825
Dividends declared in respect of the current year (note 9(a))	—	(15,935)	(15,935)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>1,633,305</u>	<u>116,690</u>	<u>1,749,995</u>
At 1 January 2002	1,429,913	182,203	1,612,116
Dividends approved in respect of the previous year (note 9(b))	—	(44,566)	(44,566)
Shares issued	200,073	—	200,073
Loss for the year	—	(5,072)	(5,072)
Dividends declared in respect of the current year (note 9(a))	—	(19,876)	(19,876)
	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>1,629,986</u>	<u>112,689</u>	<u>1,742,675</u>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

37 ACQUISITION OF A SUBSIDIARY

In 2002, the Group acquired 100% interest in CIGAML for \$405,014,000.

	2002
	\$'000
Net assets acquired	
Fixed assets	806
Investments in securities	158,689
Other debtors, deposits and prepayments	2,490
Cash and cash equivalents	36,641
Amount due to group companies	(156,625)
Other creditors, accrued charges and temporary receipts	(214)
Tax payable	(5,647)
	<hr/>
Net identifiable assets and liabilities	36,140
Goodwill arising on consolidation	368,874
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	405,014
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Satisfied by:	
Cash paid	203,438
Shares issued	201,576
	<hr/>
	405,014
	<hr/> <hr/>
Purchase price paid, satisfied in cash	203,438
Less: Cash of the subsidiary acquired	(36,641)
	<hr/>
Net cash outflow in respect of the purchase of a subsidiary	166,797
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NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

38 COMMITMENTS

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2003 \$'000	2002 \$'000
Within 1 year	42,990	23,940
After 1 year but within 5 years	<u>61,960</u>	<u>24,763</u>
	<u>104,950</u>	<u>48,703</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of 1 to 6 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.

39 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 £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 for 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 alleged 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 that the subsidiary has good prospects of successfully defending the claim. No provision has therefore been made.

- (iii) As at 31 December 2003, 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)

40 MATERIAL RELATED PARTY TRANSACTIONS

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

		2003	2002
	Note	\$'000	restated \$'000
Recurring transactions			
Business ceded by related companies:	(i)		
Gross premiums written		161,817	247,372
Commission expenses paid		40,499	66,842
Business retroceded to related companies:	(ii)		
Outward retrocession premiums		62	64
Commission income received		29	—
Investment management fee and redemption income	(iii)	56,168	27,622
Interest income received on premium deposits placed	(iv)	264	310
Investment income received from funds in an insurance pool	(v)	814	287
Insurance brokerage income	(vi)	—	62
Securities brokerage fee paid	(vii)	1,087	478
Service fee income received	(v)	146	28
IT consultation service income received	(viii)	72	262
Contributions to retirement schemes	(ix)	2,183	1,844
Travel agency service fee paid	(x)	480	335
Insurance expenses covering business risk	(xi)	370	299
Rental and management fees paid	(xii)	1,791	1,138
Finance costs paid	(xiii)	3,929	2,543
Non-recurring transactions			
Acquisition of a subsidiary	(xii)	—	403,200

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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) Certain subsidiaries of the Group retroceded business to and received commission from certain fellow subsidiaries of the Company.
- (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.
- (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. Investment income received is calculated at 15% of the Pool's investment income. 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) A subsidiary of the Company provided reinsurance broking services and received brokerage fees for services rendered to an associate of the Company.
- (vii) 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 0.2% to 0.25% of the securities value.
- (viii) A subsidiary of the Company provided IT consultation services to and received service fees from a fellow subsidiary of the Group.
- (ix) 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.
- (x) 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.
- (xi) 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.
- (xii) The Company and a subsidiary of the Company leased office and parking spaces, and paid rent and building management fees to fellow subsidiaries of the Company.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

40 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

- (xiii) A subsidiary of the Company has borrowed from a fellow subsidiary which bears interest at LIBOR plus 0.6%. The loan is unsecured and repayable on demand (note 19).

A subsidiary of the Company borrowed a loan from a fellow subsidiary which bore interest at 0.95%. The loan was unsecured and repaid before the balance sheet date.

- (xiv) 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.

41 OFF-BALANCE SHEET EXPOSURES

At 31 December 2003, the notional amounts of significant derivative transactions entered into by the Group were as follows:

	2003 \$'000	2002 \$'000
Exchange rate forward contracts	<u>698,724</u>	<u>—</u>

Off-balance sheet exposures arise from forward contracts transactions undertaken by the Group in foreign exchange markets. The contractual and notional amounts of these financial instruments indicate the value of transactions outstanding at the balance sheet date; they do not express amounts at risk.

42 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the change in accounting policies for recognition of underwriting results and income taxes, details of which are set out in note 11.

43 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2003 to be China Insurance (Holdings) Company, Limited which is established in the PRC.