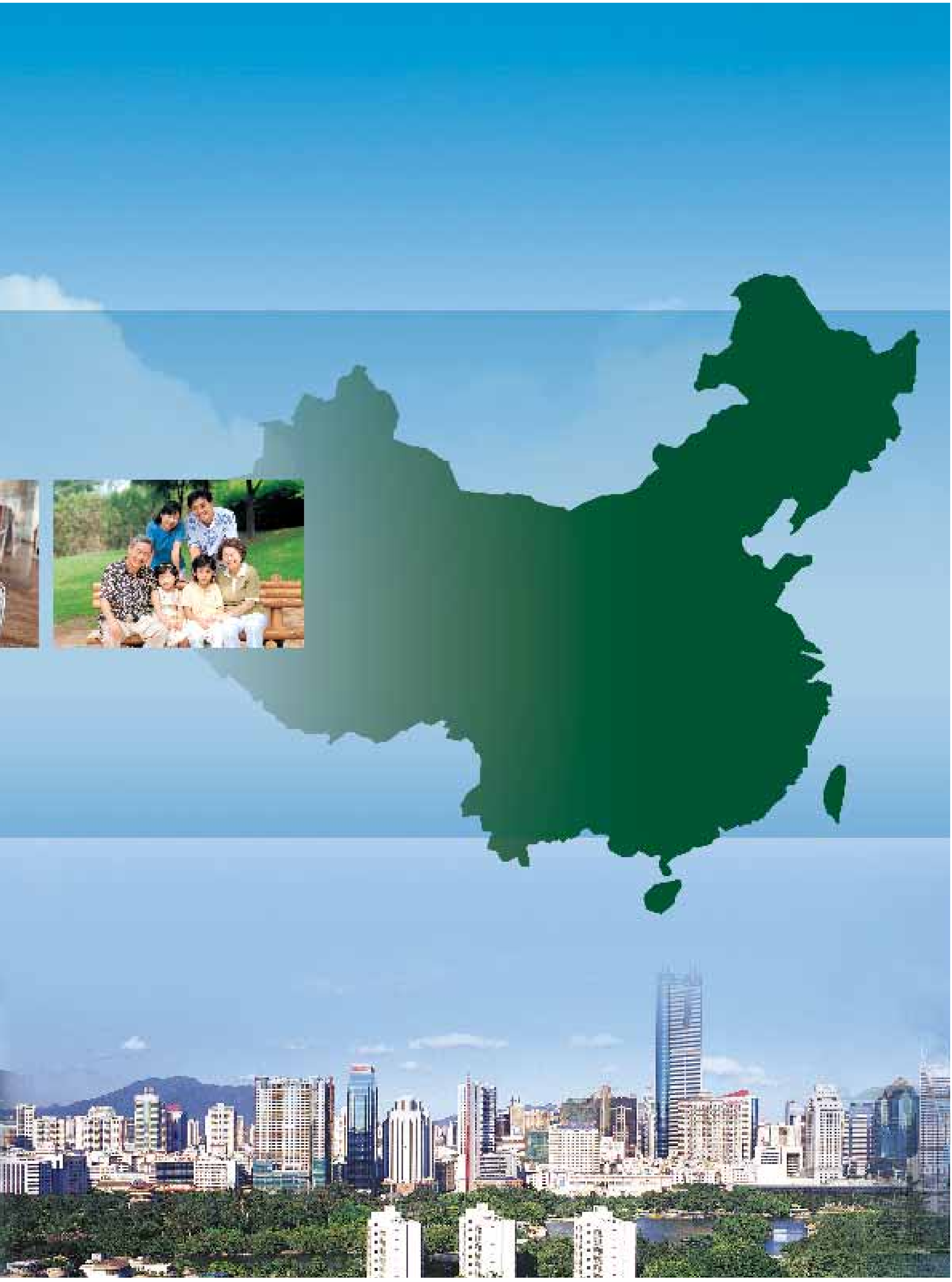
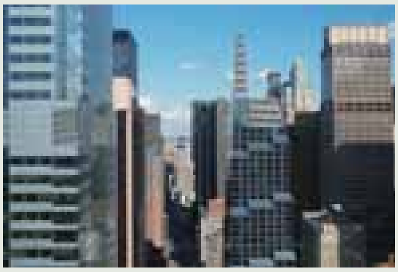


# Management Discussion and Analysis



## OVERVIEW OF FINANCIAL RESULTS

Performance highlights of the Group for the periods indicated below:

| OVERVIEW | | |
|---|---|---|
| | **Year ended 31 December** | |
| | **2006** | 2005 |
| | *(HK$ in millions, except percentages)* | |
| Gross written premiums | **1,076** | 1,100 |
| Underwriting profit | **107** | 249 |
| Investment income | **142** | 94 |
| Net realized and unrealized gains on investments | **85** | 178 |
| Net profit for the year | **306** | 570 |
| Total assets | **6,982** | 5,265 |
| Combined ratio | **82.9%** | 64.8% |
| ROAE | **12.9%** | 42.2% |

The Group is a leading general insurance company in Hong Kong providing a variety of general insurance products to a broad range of customers in Hong Kong and the People's Republic of China (the "PRC").

This is the first set of results delivered to the shareholders after our successful listing on the main board of The Stock Exchange of Hong Kong Limited in December 2006. The Group recorded a net profit of HK$306 million for the year ended 31 December 2006 which went beyond the profit forecast HK$254 million for the same year as set out in the Prospectus. For the year ended 31 December 2006, the Group recorded total gross written premiums of HK$1,076 million, of which 78.0% was attributable to our operations in Hong Kong and 22.0% was attributable to our operations in the PRC. Our Group's five business lines, namely, property, motor, liability, marine and accident and health insurance represented 26.7%, 26.6%, 22.4%, 18.3% and 6.0% of the Group's total gross written premiums respectively.

Our Hong Kong operations recorded gross written premiums of HK$839 million. In Hong Kong, our four leading product lines, namely, liability, motor, marine and property insurance represented 27.4%, 24.3%, 21.8% and 19.1% of the Group's Hong Kong gross written premiums respectively. Our PRC operations recorded gross written premiums of HK$237 million. The key business lines of our PRC operations included the property and motor insurance. These two business lines contributed approximately 88.7% of the Group's PRC gross written premiums.

Our three primary distribution channels are intermediaries such as agents and brokers, direct sales and other financial institutions. For 2006, the Group's direct written premiums through brokers, agents, direct sales and other financial institutions account for approximately 39.5%, 37.9%, 15.0% and 7.6% respectively of our Group's direct written premiums.

The Group recorded an underwriting profit of HK$107 million and a combined ratio of 82.9% in 2006. For our Hong Kong operations, the underwriting profit was HK$106 million with a combined ratio of 79.5% in 2006. For our PRC operations, the underwriting profit was HK$1 million with a combined ratio of 99.1%.

Investment income of the Group recorded an increase of 51.1% to HK$142 million in 2006, due to an increase in bank interest income. Our Hong Kong operations' investment income increased by 42.5% to HK$124 million, while the amount of our PRC operations was HK$18 million, representing a year-on-year increase of 157.1%. However, the net realized and unrealized gains on investments decreased by 52.2% to HK$85 million in 2006 from HK$178 million in 2005 mainly due to a decrease in revaluation surplus of investment properties. As a result, the total investment returns decreased by 16.5% to HK$227 million in 2006 from HK$272 million in 2005.

The Group's net profit was HK$306 million in 2006. Our Hong Kong operations recorded a net profit of HK$302 million, while our PRC operations recorded a net profit of HK$4 million.

Our total assets were HK$6,982 million and increased by 32.6%, when compared to HK$5,265 million in 2005. The increase in total assets was primarily due to an increase in the bank deposits through the collection of a significant amount in receivables due from reinsurers and capital raised from our global offering and an increase in our listed equity investment assets as a result of rapid growth of the global securities market.

# Management Discussion and Analysis

## RESULTS OF INSURANCE OPERATIONS

The following table sets forth selected results of our insurance operations for the periods indicated below:

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | *(HK$ in millions, except percentages)* | |
| **Gross written premiums** | **1,076** | 1,100 |
| **Net earned premiums** | **628** | 706 |
| **Net claims incurred** | **(167)** | (153) |
| **Net commission expenses** | **(143)** | (123) |
| **Management and other operating expenses** | **(217)** | (169) |
| **Change in net provision for unexpired risks** | **6** | (12) |
| **Underwriting profit** | **107** | 249 |
| **Operating ratios:** | | |
| Loss ratio | **25.6%** | 23.4% |
| Expense ratio | **57.3%** | 41.4% |
| **Combined ratio** | **82.9%** | 64.8% |

### *Gross Written Premiums*

Gross written premiums decreased by 2.2% to HK$1,076 million in 2006 from $1,100 million in 2005. The decrease was mainly due to an accounting policy change pursuant to which we recognised undue long-term policy insurance premium reserves of HK$39 million in 2005 and only HK$1 million in 2006. Excluding the net effect on the recognition of the long-term policy insurance premium reserves in both 2005 and 2006, gross written premiums increased by HK$14 million, representing an increase of 1.3%. This increase was primarily due to the increases in the gross written premiums of the Group's liability, property, marine and accident and health segments. However, the effect of such increases was partially offset by the decrease in gross written premiums of the motor segment.

### *Underwriting Profit*

Underwriting profit was HK$107 million in 2006 and decreased by 57.0%, compared with 2005. The decrease in underwriting profit was mainly due to several factors. First, there was a one-off adjustment of net earned premiums in 2005 as a result of the change in the method of calculating unearned premiums from the 1/24th method to the 1/365th method since 1 January 2005. Under the 1/365th method, unearned premiums for short-term policies carried forward to the following year are less than the 1/24th method. Under our previous calculation method, premiums of our short-term policies, such as those for cargo and travel insurance, written in 2004 and deferred to 2005 were all earned in 2005. However, for short-term policies written in 2005, under our new calculation method almost all premiums were earned in that year rather than being deferred to 2006. As a result of this change in calculation method, net earned premiums for 2005 were higher than net earned premiums for 2006. Net earned premiums were HK$628 million in 2006, representing a decrease of 11.0% from HK$706 million in 2005. Second, net claims incurred in 2006 increased by HK$14 million to HK$167 million, representing an increase of 9.2% when compared to that of 2005. It was primarily due to the one-time release of certain provisions for outstanding claims reserves of employees' compensation in 2005, and the Group was unfortunately hit by three major hull claims in 2006. Third, net commission expenses increased by 16.3% to HK$143 million in 2006 from HK$123 million in 2005. This was primarily due to an increase in gross commission expenses paid to our intermediaries and an increase in the average commission rate resulting from severe competitions in the market. In addition, the acquisition costs relating to the 2005 long-term policies were realised in 2006. Finally, business operating expenses increased by 28.4% to HK$217 million in 2006 from HK$169 million for the previous year. In 2006, the Group recognised the staff bonus and management fee payable to our holding company for both 2005 and 2006, which contributed to the increase in business operating expenses. Also, a new branch, Guangdong branch of The Ming An Insurance Company (China), Limited ("Ming An China"), was set up in the PRC in October 2006, adding to the operating expenses. In addition, the setting up of headquarters of Ming An China in October 2005 resulted in increase in operating expenses for 2006.

## RESULTS OF GEOGRAPHICAL SEGMENT INSURANCE OPERATIONS

### Hong Kong

The following table sets forth selected financial information for our Hong Kong segment for the periods indicated below:

| RESULTS OF INSURANCE OPERATIONS – HONG KONG | | |
|---|---|---|
| | **Year ended 31 December** | |
| | **2006** | 2005 |
| | *(HK$ in millions, except percentages)* | |
| **Gross written premiums** | **839** | 835 |
| **Net earned premiums** | **516** | 586 |
| **Net claims incurred** | **(121)** | (104) |
| **Net commission expenses** | **(137)** | (123) |
| **Management and other operating expenses** | **(158)** | (113) |
| **Change in net provision for unexpired risks** | **6** | (12) |
| **Underwriting profit** | **106** | 234 |
| **Operating ratios:** | | |
| Loss ratio | **22.3%** | 19.8% |
| Expense ratio | **57.2%** | 40.3% |
| **Combined ratio** | **79.5%** | 60.1% |

#### *Gross Written Premiums*

Gross written premiums in Hong Kong increased by 0.5% to HK$839 million in 2006 from HK$835 million in 2005. The increase was mainly a result of the increase in the gross written premiums of the liability, property and accident and health insurance segments. However, the effect of such increase was partially offset by the decrease in gross written premiums of the motor insurance segment as many of our competitors adopted a lower price strategy to attract customers which forced us to slightly lower our premium rates to retain business. In addition, a lot of our competitors began increasing their commissions to intermediaries which resulted in losing some of our customers and a decrease in direct written premiums.

# Management Discussion and Analysis

***Underwriting Profit***

Underwriting profit in Hong Kong was HK$106 million in 2006 and decreased by 54.7%, compared with 2005. The decrease in underwriting profit was mainly due to several factors. First, net earned premiums were HK$516 million in 2006 and decreased by HK$70 million, when compared with 2005. There was a one-off increase of net earned premiums in 2005 as a result of the change in the method of calculating unearned premiums from the 1/24th method to the 1/365th method since 1 January 2005. Second, net claims incurred in 2006 increased by HK$17 million to HK$121 million, representing an increase of 16.3% when compared with 2005. It was primarily due to the one-time release of certain provisions for outstanding claims reserves of employees' compensation in 2005. Also, the Group's operation in Hong Kong was unfortunately hit by three major hull claims in 2006. Finally, business operating expenses increased by 39.8% to HK$158 million in 2006 from HK$113 million for the previous year. In 2006, the Group recognised the staff bonus and management fee payable to our holding company for both 2005 and 2006, which contributed to the increase in business operating expenses.

## PRC

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

| RESULTS OF INSURANCE OPERATIONS – PRC | | |
|---|---|---|
| | Year ended 31 December | |
| | **2006** | 2005 |
| | *(HK$ in millions, except percentages)* | |
| **Gross written premiums** | **237** | 265 |
| **Net earned premiums** | **112** | 120 |
| **Net claims incurred** | **(46)** | (49) |
| **Net commission expenses** | **(6)** | 0.4 |
| **Management and other operating expenses** | **(59)** | (56) |
| **Change in net provision for unexpired risks** | **0** | 0 |
| **Underwriting profit** | **1** | 15 |
| **Operating ratios:** | | |
| Loss ratio | **41.1%** | 40.8% |
| Expense ratio | **58.0%** | 46.7% |
| **Combined ratio** | **99.1%** | 87.5% |

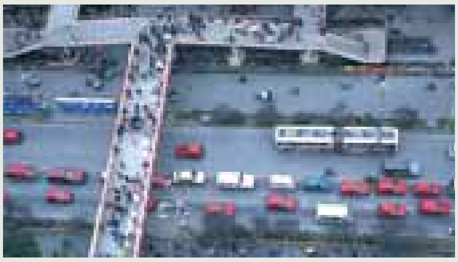
### *Gross Written Premiums*

Gross written premiums in PRC was HK$237 million for the year ended 31 December 2006 representing a drop of 10.6% from the previous year. The decrease was mainly due to an accounting policy change that took effect pursuant to which we recognised undue long-term policy insurance premium reserves of HK$39 million in 2005 and only HK$1 million in 2006. Excluding the net effect on the recognition of the long-term policy insurance premium reserves in both 2005 and 2006, gross written premiums increased by HK$10 million, representing an increase of 4.4%. This increase was primarily due to the increases in the gross written premiums of HK$4 million from the property segment and HK$5 million from the marine segment. However, the effect of such increases was partially offset by the decrease in gross written premiums in the motor segment. The departure of certain sales personnel from Ming An China also contributed to the decrease in gross written premiums for the first half of the year, which was due to concerns surrounding their income-generating ability due to: (a) our policy of maintaining motor premiums at higher rates than our competitors, which lowered sales volume and (b) concerns that Ming An China, as a foreign-invested insurance company, would be disadvantaged in the motor insurance business after the introduction of the Compulsory Motor Traffic Accident Liability Insurance for all motor vehicles in July 2006 because only insurance companies with PRC company status would be permitted to offer the required compulsory insurance coverage. The decrease was partially offset by an increase in gross written premiums of motor insurance for the second half of 2006 due to an increase in the number of the policies written after obtaining the PRC company status and being allowed to write the Compulsory Motor Traffic Accident Liability Insurance for all motor vehicles in the PRC. The distributions of gross written premiums of PRC motor business in the first and second half of the year are as follows:

| Gross Written Premiums for Motor in PRC | | |
|---|---|---|
| | **2006** | 2005 |
| | *(HK$ in millions)* | |
| 1st Half year | **30** | 43 |
| 2nd Half year | **53** | 42 |
| Total | **83** | 85 |

### *Underwriting Profit*

Underwriting profit in PRC was HK$1 million in 2006 and decreased by 93.3% when compared with 2005. The decrease in underwriting profit was mainly caused by two major factors: the decrease in net earned premiums and the increase in acquisition and operating costs.



Our PRC subsidiary recorded net earned premiums of HK$112 million in 2006 which was HK$8 million less than the net earned premiums in 2005. The drop was due to two reasons. Firstly, the change in the Group's method of calculating unearned premium from the 1/24th method to the 1/365th method since 2005 led to a rise in the net earned premiums in 2005 and which is a one-off change. Secondly, as more businesses were written in the second half of 2006 rather than in the first half of the year, a larger portion of the written premiums had to be deferred to the following year.

The increase in acquisition and operating costs was attributable to the increase in the net commission expenses and the increase in the operating expenses. In 2006, the increase in the gross commission expenses and the decrease in commission income contributed to the increase in the net commission expenses. The acquisition costs of HK$5 million relating to the 2005 long-term policies were realised in 2006. In addition, commission income dropped by HK$2 million because the profit commissions generated from the mandatory reinsurance treaties declined. Due to the relaxation of the policy of CIRC, the mandatory reinsurance ratio was allowed to decrease by 5% per annum from 2002. Moreover, the business operating expenses increased by HK$3 million to HK$59 million in 2006 from HK$56 million in 2005. In 2006, the Group recognised the staff bonus for both 2005 and 2006, which contributed to the increase in business operating expenses. Also, a new branch, Guangdong branch of Ming An China, was set up in the PRC in October 2006, which added to operating expenses. In addition, the setting up of headquarters of Ming An China in October 2005 resulted in increase in operating expenses for 2006.

## INVESTMENT PERFORMANCE

The following table sets forth the value of the Group's investment portfolio by investment category for the periods indicated below:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2006** | **% of Total** | 2005 | % of Total |
| | ***(HK$ in millions)*** | **%** | *(HK$ in millions)* | % |
| Equity securities: | | | | |
| Listed | **489** | **10.9%** | 274 | 12.0% |
| Unlisted | **2** | **0.0%** | 39 | 1.7% |
| Debt securities: | | | | |
| Listed | **122** | **2.7%** | 132 | 5.8% |
| Unlisted | **0** | **0.0%** | 8 | 0.3% |
| Cash and bank deposits | **2,934** | **65.1%** | 890 | 38.8% |
| Investment properties | **955** | **21.2%** | 929 | 40.5% |
| Other investment assets[(1)] | **5** | **0.1%** | 20 | 0.9% |
| Total investment assets | **4,507** | **100.0%** | 2,292 | 100.0% |

(1) Other investment assets primarily consist of investments in associates and investments in gold.

Investment in cash and bank deposits represented approximately 65.1% of our total investment assets as of 31 December 2006 (2005: 38.8%). During the year, the Group continued to adopt a prudent and conservative investment philosophy, which aimed at generating stable cash inflows while earning competitive market rate of return. All debt securities held by us had investment grade ratings recognised by international rating agencies.

| | **Investment Returns** | | **Investment Yields** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | *(HK$ in millions)* | | % | |
| **Investment Income** | | | | |
| Interest and Dividend Income | | | | |
| Dividend income from listed and unlisted equity securities | **8** | 40 | **2.0%** | 11.7% |
| Interest income from debt securities | **7** | 8 | **5.4%** | 5.2% |
| Interest income from bank balances | **92** | 16 | **6.8%** | 2.0% |
| Rental Income | **35** | 30 | **3.7%** | 3.6% |
| | **142** | 94 | **5.0%** | 4.4% |
| **Net Realized and Unrealized Gains on Investments** | **85** | 178 | **N/A** | N/A |
| | **227** | 272 | **8.0%** | 12.7% |

Investment income of the Group recorded an increase of 51.1% to HK$142 million in 2006. This increase was a result of an increase of bank interest income by HK$76 million due to the increase in interest rates and an increase in the bank balances through the collection of a significant amount in receivables due from reinsurers and capital raised from our global offering.

However, the net realized and unrealized gains on investments of the Group decreased by 52.2% to HK$85 million in 2006 from HK$178 million in 2005. This was mainly due to a decrease in revaluation surplus of investment properties by HK$162 million because of the slower growth in the market prices for Hong Kong real estate in 2006 as compared with the growth in 2005 and a decrease in dividend income of HK$32 million from listed and unlisted equity securities. The effect of such decrease, however, was partially offset by a HK$38 million increase in gain on a one-time disposal of shares of Resources Shajiao C Investments Limited ("Shajiao C") to China Resources Power Performance Limited. In addition, a rapid growth of the global securities market led to a HK$24 million increase in net unrealized gains on securities held for trading and a HK$8 million increase in net realized gains on disposal of securities held for trading.

As a result, the total investment returns of the Group decreased by 16.5% to HK$227 million in 2006 from HK$272 million in 2005.

We understand that investment income is an important source of income of an insurance company. In the previous years, large portion of our investment fund was put in the banks. In order to generate higher investment return, we will build up a more reasonable investment portfolio which is in line with our investment philosophy of safety, liquidity and profitability.

# Management Discussion and Analysis

## PROFIT FOR THE YEAR

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

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | *(HK$ in millions)* | |
| **Underwriting profit** | **107** | 249 |
| **Investment income** | **142** | 94 |
| **Net realized and unrealized gains on investments** | **85** | 178 |
| **Other net income** | **1** | 27 |
| **Administrative and other expenses** | **(24)** | (17) |
| **Profit from operations** | **311** | 531 |
| **Share of profits of associates** | **1** | 3 |
| **Profit before taxation** | **312** | 534 |
| **Income tax (charge)/credit** | **(6)** | 36 |
| **Profit for the year** | **306** | 570 |

Profit for the year was HK$306 million in 2006 as compared to HK$570 million in 2005. The decrease as mentioned above, was attributable to the decrease in underwriting profits by HK$142 million, resulting from the one-off increase in earned premiums in 2005 and the one-time release of certain provisions for outstanding claims reserves of employees' compensation in 2005. Second, the revaluation surplus of investment properties decreased by HK$162 million as a result of the slower growth in the market prices for Hong Kong real estate in 2006 as compared with 2005. Third, the income tax charge increased to HK$6 million in 2006 from an income tax credit of HK$36 million in 2005 as there was no additional deferred tax assets recognised in 2006. It was partially offset by an increase in bank interest income to HK$92 million in 2006, a 475.0% growth from HK$16 million in 2005. This was due to an increase in bank deposits from HK$890 million in 2005 to HK$2,934 million in 2006 and an increase in market fixed deposit interest rates. Also, there was a HK$38 million increase in gain on a one-time disposal of shares of Shajiao C.

## LIQUIDITY AND FINANCIAL RESOURCES

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

The Group's cash and bank deposits (excluding statutory deposits) as at 31 December 2006 amounted to HK$2,823 million (2005: HK$831 million). We believe that, after taking into account the net proceeds of our global offering and cash generated from our operating activities, we have sufficient working capital for our present requirement. There was no bank borrowing during the year except for certain temporary bank overdrafts for insignificant amounts.

### Solvency Margin Requirement

Given our unique dual status in Hong Kong and the PRC, we are subject to a number of Hong Kong and PRC regulations in terms of our financial operations, including minimum paid-up capital requirements, stipulated solvency margins, regulatory benchmarks and provisions for certain funds and reserves.

We review our solvency margin regularly and report the status of our solvency margin to the Office of the Commissioner of Insurance of Hong Kong and the China Insurance Regulatory Commission on an annual basis. We have met our minimum solvency requirements in both Hong Kong and PRC and our solvency margin far exceeds the statutory net surplus required by the Hong Kong and PRC Insurance regulations.

### Gearing Ratio

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | % | |
| Gearing ratio | **55.2%** | 69.4% |

The gearing ratio is computed by dividing the sum of total liabilities and minority interests by total assets. As at 31 December 2006, the Group's gearing ratio was 55.2%, representing a decrease of 14.2 percentage point from 69.4% in 2005. It is mainly primarily due to the increase in the total assets to HK$6,982 million in 2006 from HK$5,265 million in 2005 as a result of an increase in the bank deposits through the collection of significant amount in receivables due from reinsurers and capital raised from our global offering.

### Contingent Liabilities

In the normal course of business, we provide guarantees to insured parties and banks as part of our claims and underwriting processes. As of 31 December 2006, we had a contingent liability of HK$30 million in respect of potential Hong Kong tax exposure relating to certain realized and unrealized gains on the disposal of listed investments for the 2001, 2002 and 2003 tax years. Considering that such gains were capital in nature, the Directors believe that the Group has good prospect to support its tax position, and therefore no provision for a potential tax exposure of approximately HK$30 million was made in the consolidated financial statements.

### Capital Expenditures

Our capital expenditures have been mainly for the acquisition of motor vehicles, renovation expenditures, furniture and fittings, equipment and computers, and the development of our information systems. Capital expenditure was HK$7 million in 2006.

We intend to improve our IT system infrastructure, including customizing our core business operating system and the financial software in the coming year. As disclosed in the Prospectus, 5% of the net proceeds from our global offering has been allocated for the above purpose.

## HEDGING INSTRUMENTS

The Group does not use any financial instruments for hedging purposes. As the Group's reporting currency is Hong Kong dollar ("HKD"), other than HKD, the Group transacts business mainly in the United States dollar ("USD) and Renminbi ('RMB"). USD and RMB assets mainly comprise cash and cash equivalents whereas USD and RMB liabilities mainly comprise provision for claims liabilities and insurance payables. At present, the market exchange rate of HKD against USD is set within a fixed trading range from HK$7.75 to HK$7.85 against US$1.00. The currency position of assets and liabilities is monitored by the Group periodically. The Group has assessed the impact of a hypothetical 1% depreciation in RMB on the aggregate fair value of the Group's net RMB assets and management is of the opinion that the impact would not be material.

## STAFF AND STAFF REMUNERATION

As at 31 December 2006, the Group had a staff force of 636. Of this, 321 were in the PRC and 315 were in Hong Kong. Total remuneration amounted to HK$148 million. We offer competitive remuneration packages to our employees, including salaries, bonuses and various allowances. We provide technical as well as operational training to all new employees and on-going training for all employees.

# We Connect
## with our Customer on all Fronts