Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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1 Reorganisation

The Ming An (Holdings) Company Limited (the "Company") was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised).

Pursuant to a reorganisation of the Company and its subsidiary (collectively referred to as the "Group") completed on 29 November 2006 (the "Reorganisation") to rationalise the group structure in preparation for the public listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Global Offering"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 22 December 2006.

Details of the Reorganisation are set out in the prospectus dated 11 December 2006 issued by the Company (the "Prospectus").

2 Basis of presentation of the consolidated financial statements

The Group is regarded as a continuing entity resulting from the Reorganisation and the consolidated financial statements have prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 5 September 2006. Accordingly, the Group's consolidated revenue account, consolidated income statement and consolidated cash flow statement for the years ended 31 December 2005 and 2006 include the results of operations and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged for both years presented, or since their respective dates of incorporation/establishment or acquisition, or up to the date of disposal, where there is a shorter period. The Group's consolidated balance sheet as at 31 December 2005 and 2006 have been prepared to present the state of affairs of the companies now comprising the Group as if the current group structure had been in existence as at the respective dates.

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

3 Significant accounting policies

(a) Statement of compliance

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

The consolidated financial statements also conform with the applicable disclosure provision of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Management has assessed that the adoption of these new and revised HKFRSs did not have any impact on the Group's and Company's results of operations for the years ended 31 December 2005 and 2006 and financial position as at 31 December 2005 and 2006.

3 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries and the Group's interest in associates.

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

– investment properties (see note 3(l)); and

– financial instruments classified as securities held for trading and available-for-sale securities (see note 3(k)).

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

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

(d) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and the consolidated statement of changes in equity within equity, separately from the equity attributable to the consolidated equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity shareholders of the Company.

3 Significant accounting policies (Continued)

(d) Subsidiaries and minority interests (Continued)

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(n)).

(e) Associates

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

An investment in an associate is accounted for in the 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. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 3(f) and 3(n)).

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

Unrealized 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 unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(f) Goodwill

Goodwill represents the excess of the cost of business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment losses (see note 3(n)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

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

3 Significant accounting policies (Continued)

(g) Classification of contracts

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

(h) Recognition and measurement of insurance contracts

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

(ii) Premiums

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

(iii) Claims

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

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

IBNR is established to recognise the estimated cost of losses that have been incurred but of which the Group has not yet been notified as well as the estimated costs necessary to bring the claims to final settlement. IBNR is estimated by using a range of standard actuarial projection techniques such as the Bornhuetter-Ferguson method ("BF method") and the paid and incurred loss development method.

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

(iv) Reinsurance

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

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

Premiums ceded, reinsurers' share of claims paid and the related payables and receivables are presented separately in the consolidated revenue account and the consolidated balance sheet.

3 Significant accounting policies (Continued)

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

(iv) Reinsurance (Continued)

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

(v) Insurance funds

(i) Provision for unearned premiums

Provision for unearned premiums is recognised to cover the proportion of retained premiums written in a year 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.

(ii) Provision for outstanding claims

Provision for outstanding claims represents estimated liabilities in respect of case reserves for reported claims and IBNR after deducting amounts recoverable from reinsurers. The basis of provision is set out in note 22(v).

(iii) Provision for unexpired risks

Provision for unexpired risks represents the excess of the estimated value of claims and related claims handling costs likely to arise after the balance sheet date from contracts concluded before that date over and above unearned premiums relating to those contracts. The amount of provision is made for each class of business individually.

(i) Revenue recognition

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

(i) Premium income

The accounting policy in relation to the recognition of premium income from insurance contracts is set out in note 3(h).

(ii) Commission income

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

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated 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 consolidated income statement as an integral part of the aggregate net lease payments receivable.

3 Significant accounting policies (Continued)

(i) Revenue recognition (Continued)

(iv) Dividends

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

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

(j) Management expenses

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

(k) Financial instruments

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

(a) Securities held for trading

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

At each balance sheet date, the fair value is remeasured. Realized gains and losses and unrealized gains and losses arising from changes in fair value are included in the consolidated income statement in the period in which they arise.

(b) Available-for-sale securities

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

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

(c) Loans and receivables

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

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, if any (see note 3(n)). Where the effect of discounting is immaterial, loans and receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(n)).

3 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

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

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

(l) Fixed assets

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(m)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the consolidated balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 3(i).

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

(ii) Property and equipment

The following property and equipment held for own use are carried in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 3(n)):

– land held under operating leases and buildings thereon, where the fair values of the leasehold interests in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease (see note 3(m));

– buildings held for own use which are situated on leasehold land, where the fair values of the buildings could be measured separately from the fair value of leasehold land at the inception of the lease (see note 3(m)); and

– furniture and equipment.

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

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

3 Significant accounting policies (Continued)

(l) Fixed assets (Continued)

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

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

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

- Furniture and equipment are depreciated over 5 years.

(m) Leased assets

(i) Classification of assets leased to the Group

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

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

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(l)(v). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(n). Finance charges implicit in the lease payments are charged to the consolidated income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets including land held for own use under operating leases, payments made under the leases are charged to the consolidated 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.

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

3 Significant accounting policies (Continued)

(n) Impairment of assets

(i) Impairment of investments in securities and loans and receivables

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

– For financial assets that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

– For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

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

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

(ii) Impairment of other assets

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

– property and equipment;

– interests in leasehold land held for own use classified as being held under an operating lease; and

– investments in subsidiaries and associates.

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

3 Significant accounting policies (Continued)

(n) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(o) Cash and cash equivalents

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

(p) Employee benefits

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

(q) Income tax

(i) Income tax for the year 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 consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

3 Significant accounting policies (Continued)

(q) 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.

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

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3 Significant accounting policies (Continued)

(r) Provisions and contingent liabilities

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

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

(s) Insurance and other payables

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

(t) Translation of foreign currencies

Foreign currency transactions during the year 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 consolidated 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 exchange reserve.

(u) Related parties

For the purposes of the consolidated financial statements, parties are considered to be related to the Group if:

(i) the parties have the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or has joint control over the Group;

(ii) the Group and the parties are subject to common control;

(iii) the parties are associates of the Group;

(iv) the parties are members of key management personnel of the Group or the Group's parent, or close family members of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the parties are post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3 Significant accounting policies (Continued)

(v) Share issue costs

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

(w) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of the consolidated 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. For example, segment assets may include insurance receivables and reinsurers' share of insurance funds. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

(Expressed in Hong Kong dollars)

4 Segment information

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

(i) Business segments

The Group comprises the following main business segments:

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

	Year ended 31 December 2006						
	Motor $	Property $	Liability $	Marine $	Accident and health $	Unallocated $	Total $
Direct businesses	286,641,548	285,908,947	240,619,165	196,313,497	64,627,085	–	1,074,110,242
Reinsurance businesses accepted	213,866	1,226,921	80,882	431,737	97,623	–	2,051,029
Gross written premiums from external customers	286,855,414	287,135,868	240,700,047	196,745,234	64,724,708	–	1,076,161,271
Net earned premiums	259,106,522	83,624,365	135,304,146	94,568,799	55,141,695	–	627,745,527
Net claims incurred	(46,394,056)	(5,773,235)	(18,607,445)	(73,028,431)	(22,813,760)	–	(166,616,927)
Change in net provision for unexpired risks	–	(872,000)	9,963,000	(3,234,000)	–	–	5,857,000
Net commission expenses	(79,218,121)	(9,045,161)	(26,629,056)	(12,943,788)	(15,108,835)	–	(142,944,961)
Management and other operating expenses	(54,356,246)	(53,632,436)	(50,395,945)	(36,360,212)	(22,101,748)	–	(216,846,587)
Segment results	79,138,099	14,301,533	49,634,700	(30,997,632)	(4,882,648)	–	107,194,052
Unallocated operating income and expenses	–	–	–	–	–	204,255,148	204,255,148
Profit/(loss) from operations	79,138,099	14,301,533	49,634,700	(30,997,632)	(4,882,648)	204,255,148	311,449,200
Share of profits of an associate	–	–	–	–	–	699,789	699,789
Profit/(loss) before taxation	79,138,099	14,301,533	49,634,700	(30,997,632)	(4,882,648)	204,954,937	312,148,989
Income tax charge	–	–	–	–	–	(5,739,132)	(5,739,132)
Profit/(loss) for the year	79,138,099	14,301,533	49,634,700	(30,997,632)	(4,882,648)	199,215,805	306,409,857

(Expressed in Hong Kong dollars)

4 Segment information (Continued)

(i) Business segments (Continued)

	Year ended 31 December 2006						
	Motor $	Property $	Liability $	Marine $	Accident and health $	Unallocated $	Total $
Significant non-cash (expenses)/ income:							
– Depreciation for the year	(1,872,365)	(2,080,394)	(1,588,080)	(1,138,881)	(663,481)	(15,182)	(7,358,383)
– Change in net provision for unearned premiums	(2,897,022)	772,357	(9,397,690)	1,812,351	(1,590,486)	–	(11,300,490)
– Change in net provision for outstanding claims	82,573,939	18,446,427	225,343,505	(42,457,496)	(4,933,076)	–	278,973,299
– Change in net provision for unexpired risks	–	(872,000)	9,963,000	(3,234,000)	–	–	5,857,000
Segment assets	180,451,368	294,273,835	780,415,345	670,577,707	10,927,511	–	1,936,645,766
Unallocated assets	–	–	–	–	–	5,045,634,689	5,045,634,689
Total assets	180,451,368	294,273,835	780,415,345	670,577,707	10,927,511	5,045,634,689	6,982,280,455
Segment liabilities	743,873,159	466,953,076	1,647,682,129	839,607,396	56,014,104	–	3,754,129,864
Unallocated liabilities	–	–	–	–	–	102,046,924	102,046,924
Total liabilities	743,873,159	466,953,076	1,647,682,129	839,607,396	56,014,104	102,046,924	3,856,176,788
Capital expenditure incurred during the year	32,480	220,838	48,980	–	16,490	6,349,269	6,668,057

(Expressed in Hong Kong dollars)

4 Segment information (Continued)

(i) Business segments (Continued)

	Year ended 31 December 2005						
	Motor $	Property $	Liability $	Marine $	Accident and health $	Unallocated $	Total $
Direct businesses	314,428,949	306,003,871	227,127,533	194,157,464	55,783,904	–	1,097,501,721
Reinsurance businesses accepted	–	1,228,365	(3,676)	626,852	153,708	–	2,005,249
Gross written premiums from external customers	314,428,949	307,232,236	227,123,857	194,784,316	55,937,612	–	1,099,506,970
Net earned premiums	283,418,935	91,313,215	148,145,974	129,667,716	53,511,433	–	706,057,273
Net claims (incurred)/recovered	(117,549,717)	(34,855,348)	45,494,935	(30,967,998)	(14,982,777)	–	(152,860,905)
Change in net provision for unexpired risks	–	–	(12,000,000)	–	–	–	(12,000,000)
Net commission (expenses)/ income	(70,957,058)	7,946,688	(28,153,535)	(18,473,178)	(13,142,827)	–	(122,779,910)
Management and other operating expenses	(47,367,574)	(49,575,899)	(33,243,836)	(25,069,261)	(14,412,322)	–	(169,668,892)
Segment results	47,544,586	14,828,656	120,243,538	55,157,279	10,973,507	–	248,747,566
Unallocated operating income and expenses	–	–	–	–	–	282,258,848	282,258,848
Profit from operations	47,544,586	14,828,656	120,243,538	55,157,279	10,973,507	282,258,848	531,006,414
Share of profits of associates	–	–	–	–	–	3,025,190	3,025,190
Profit before taxation	47,544,586	14,828,656	120,243,538	55,157,279	10,973,507	285,284,038	534,031,604
Income tax credit	–	–	–	–	–	35,982,452	35,982,452
Profit for the year	47,544,586	14,828,656	120,243,538	55,157,279	10,973,507	321,266,490	570,014,056
Significant non-cash (expenses)/ income:							
– Depreciation for the year	(2,093,546)	(2,152,077)	(1,811,918)	(1,287,688)	(773,820)	(19,395)	(8,138,444)
– Change in net provision for unearned premiums	12,253,910	(37,666,011)	12,234,279	27,257,165	4,811,029	–	18,890,372
– Change in net provision for outstanding claims	3,079,491	(5,191,618)	326,647,536	(4,679,042)	533,831	–	320,390,198
– Change in net provision for unexpired risks	–	–	(12,000,000)	–	–	–	(12,000,000)
Segment assets	1,103,206,014	364,543,831	750,860,378	185,161,796	8,013,979	–	2,411,785,998
Unallocated assets	–	–	–	–	–	2,853,355,614	2,853,355,614
Total assets	1,103,206,014	364,543,831	750,860,378	185,161,796	8,013,979	2,853,355,614	5,265,141,612
Segment liabilities	912,626,253	509,199,917	1,817,846,536	325,158,188	36,620,456	–	3,601,451,350
Unallocated liabilities	–	–	–	–	–	53,355,276	53,355,276
Total liabilities	912,626,253	509,199,917	1,817,846,536	325,158,188	36,620,456	53,355,276	3,654,806,626
Capital expenditure incurred during the year	25,400	37,415	44,400	70,115	49,315	5,791,356	6,018,001

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

(Expressed in Hong Kong dollars)

4 Segment information (Continued)

(ii) Geographical segments

The Group's business participates in two principal economic environments, namely Hong Kong and the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on economic environments with significantly different risks and returns.

	Year ended 31 December 2006		
	Hong Kong	The PRC	Total
	$	$	$
Direct businesses	837,241,741	236,868,501	1,074,110,242
Reinsurance businesses accepted	2,020,142	30,887	2,051,029
Gross written premiums from external customers	839,261,883	236,899,388	1,076,161,271
Net earned premiums	515,745,383	112,000,144	627,745,527
Net claims incurred	(120,244,160)	(46,372,767)	(166,616,927)
Change in net provision for unexpired risks	5,857,000	–	5,857,000
Net commission expenses	(137,138,456)	(5,806,505)	(142,944,961)
Management and other operating expenses	(157,619,064)	(59,227,523)	(216,846,587)
Segment results	106,600,703	593,349	107,194,052
Unallocated operating income and expenses	194,791,746	9,463,402	204,255,148
Profit from operations	301,392,449	10,056,751	311,449,200
Share of profits of an associate	699,789	–	699,789
Profit before taxation	302,092,238	10,056,751	312,148,989
Income tax charge	–	(5,739,132)	(5,739,132)
Profit for the year	302,092,238	4,317,619	306,409,857

	31 December 2006		
	Hong Kong	The PRC	Total
	$	$	$
Segment assets	6,101,551,225	880,729,230	6,982,280,455
Segment liabilities	3,518,863,590	337,313,198	3,856,176,788
Capital expenditure incurred during the year	2,016,100	4,651,957	6,668,057

(Expressed in Hong Kong dollars)

4 Segment information (Continued)

(ii) Geographical segments (Continued)

	Year ended 31 December 2005		
	Hong Kong	The PRC	Total
	$	$	$
Direct businesses	832,689,916	264,811,805	1,097,501,721
Reinsurance businesses accepted	2,005,249	–	2,005,249
Gross written premiums from external customers	834,695,165	264,811,805	1,099,506,970
Net earned premiums	586,457,415	119,599,858	706,057,273
Net claims incurred	(103,571,407)	(49,289,498)	(152,860,905)
Change in net provision for unexpired risks	(12,000,000)	–	(12,000,000)
Net commission (expenses)/ income	(123,200,522)	420,612	(122,779,910)
Management and other operating expenses	(114,479,697)	(55,189,195)	(169,668,892)
Segment results	233,205,789	15,541,777	248,747,566
Unallocated operating income and expenses	274,185,384	8,073,464	282,258,848
Profit from operations	507,391,173	23,615,241	531,006,414
Share of profits of associates	3,025,190	–	3,025,190
Profit before taxation	510,416,363	23,615,241	534,031,604
Income tax credit/(charge)	44,700,000	(8,717,548)	35,982,452
Profit for the year	555,116,363	14,897,693	570,014,056

	31 December 2005		
	Hong Kong	The PRC	Total
	$	$	$
Segment assets	4,639,482,353	625,659,259	5,265,141,612
Segment liabilities	3,349,190,468	305,616,158	3,654,806,626
Capital expenditure incurred during the year	3,225,433	2,792,568	6,018,001

(Expressed in Hong Kong dollars)

5 Turnover

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

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

6 Investment income

	2006 $	2005 $
Rental income	**34,786,586**	29,574,312
Interest income		
– Debt securities	**6,838,691**	7,638,653
– Bank balances	**92,738,446**	15,808,072
Dividend income		
– Listed equity securities	**7,174,109**	11,289,717
– Unlisted equity securities	**878,746**	29,239,266
	142,416,578	93,550,020

7 Net realized and unrealized gains on investments and other net income

(i) Net realized and unrealized gains on investments

	2006 $	2005 $
Property related income		
– Net gains on disposal of investment properties	**–**	80,000
– Revaluation surplus of investment properties	**20,181,916**	181,896,112
Investment related income/(losses)		
– Net gains on disposal of available-for-sale securities	**37,582,869**	–
– Net gains on disposal of securities held for trading	**9,295,804**	1,602,253
– Net unrealized gains/(losses) on securities held for trading	**20,633,038**	(3,561,292)
– Investment management fee expenses	**(1,261,464)**	(1,564,050)
– Loss on disposal of an associate	**(231)**	–
– Goodwill arisen from acquisition of a subsidiary	**30,438**	3,188
– Losses on disposal of subsidiaries	**(1,101,819)**	–
	85,360,551	178,456,211

(Expressed in Hong Kong dollars)

7 Net realized and unrealized gains on investments and other net income (Continued)

(ii) Other net income

	2006 $	2005 $
Fee and commission income		
– Handling fee income	**692,699**	790,616
– Management fee income	**700,000**	699,248
– Miscellaneous commission income	**736,266**	1,299,329
Use of land and buildings		
– Impairment losses of land and buildings written back	**4,323,425**	2,556,101
– Net impairment losses of interest in leasehold land held for own use under operating leases (provided)/written back	**(4,770,448)**	22,341,006
– Net gains/(losses) on disposal of property and equipment	**367,201**	(56,766)
Others		
– Net foreign exchange losses	**(11,409,913)**	(5,703,415)
– Sundry income	**6,581,067**	5,608,818
– Bad debts recovered	**3,537,259**	–
	757,556	27,534,937

(Expressed in Hong Kong dollars)

8 Profit before taxation

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

	2006	2005
	$	$
(a) Staff costs:		
Contributions to defined contribution retirement plan	**8,797,241**	8,841,627
Salaries, wages and other benefits	**139,199,803**	101,438,057
	147,997,044	110,279,684
(b) Other items:		
Auditors' remuneration		
– audit	**1,615,800**	1,252,690
– tax	**137,700**	143,954
Depreciation	**7,358,383**	8,138,444
Operating lease charges in respect of land and buildings	**2,226,496**	1,819,452
Net impairment losses provided/(written back)		
– fixed assets	**447,023**	(24,897,107)
– insurance receivables	**2,515,559**	12,437,650
Rentals receivable from investment properties less direct outgoings	**(33,291,245)**	(27,482,115)
– direct outgoings	**1,495,341**	2,092,197
Share of associates' taxation	**136,383**	237,458

(Expressed in Hong Kong dollars)

9 Income tax

(a) Taxation in the consolidated income statements represents:

	2006	2005
	$	$
Current tax – the PRC		
Tax for the year	**5,682,828**	6,880,005
Under-provision in respect of prior years	**56,304**	1,729,752
	5,739,132	8,609,757
Deferred tax		
Origination and reversal of temporary differences	**–**	(44,592,209)
Income tax charge/(credit)	**5,739,132**	(35,982,452)

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the tax losses brought forward from previous years exceed the estimated assessable profits for the year (2005: Nil).

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

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

	2006	2005
	$	$
Profit before tax	**312,148,989**	534,031,604
Notional tax on profit before tax calculated, at the rates applicable to profits in the jurisdictions concerned	**58,688,442**	94,373,390
Tax effect of non-deductible expenses	**12,744,690**	15,360,997
Tax effect of non-taxable income	**(32,799,252)**	(22,118,057)
Net deferred tax liabilities not recognised (Note)	**(14,271,102)**	(37,994,683)
Tax effect of tax losses utilised this year	**(26,438,264)**	(40,547,691)
Tax effect of net deferred tax assets recognised	**–**	(44,592,209)
Under provision in prior years	**56,304**	1,729,752
Tax effect of adjustment to prior years' tax losses	**7,758,314**	–
Tax effect of retrospective application of new/revised HKFRSs	**–**	(2,193,951)
Income tax charge/(credit)	**5,739,132**	(35,982,452)

(Expressed in Hong Kong dollars)

9 Income tax (Continued)

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

Note: The net deferred tax liabilities reflect taxable temporary differences in respect of certain subsidiaries of the Group related to depreciation allowances in excess of the related depreciation charges and the deferred tax effect on the revaluation of investment properties in accordance with the Hong Kong (Standing Interpretations Committee) ("HK(SIC)") Interpretation 21, "Income Taxes-Recovery of Revalued Non-depreciable Assets". Such deferred tax liabilities, however, were not recognised in the consolidated financial statements as they were in much smaller amount that the tax losses carried forward for the respective subsidiaries. As a result, the subsidiaries had net deferred tax assets rather than deferred tax liabilities. The Directors are of the opinion that it was not probable that such subsidiaries would earn future taxable profits against which these net deferred tax assets could be utilised in the foreseeable future.

(c) Current taxation in the consolidated balance sheets represents:

	2006	2005
	$	$
Balance of Profits Tax provision relating to prior years	4,601,459	4,601,459
Taxation outside Hong Kong	–	4,538,724
	4,601,459	9,140,183
Amount of taxation payable expected to be settled after more than 1 year	4,601,459	4,601,459

(d) Deferred tax assets recognised

Deferred tax assets arising from tax losses and net deductible temporary differences recognised in the Group's consolidated balance sheet and the movements during the year are as follows:

	2006	2005
	$	$
At 1 January	69,396,103	24,798,418
Credited to consolidated income statement	–	44,592,209
Exchange difference	–	5,476
At 31 December	69,396,103	69,396,103

(e) Deferred tax assets not recognised

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

	2006	2005
	$	$
Tax losses	608,175,795	794,550,929
Deductible temporary differences	105,749,312	152,016,604
	713,925,107	946,567,533

(Expressed in Hong Kong dollars)

9 Income tax (Continued)

(f) Accounting estimates and judgements

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences (in accordance with the accounting policy stated in note 3(q)(iii)). As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

10 Directors' emoluments

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

	Year ended 31 December 2006				
	Directors' fees	Salaries and other allowances	Discretionary bonuses	Retirement scheme contributions	Total
	$	$	$	$	$
Executive Directors					
Peng Wei	–	1,350,050	1,900,000	12,000	3,262,050
Cheng Kwok Ping	–	1,300,000	1,600,000	180,000	3,080,000
Chan Pui Leung	–	750,100	900,000	103,860	1,753,960
Lee Wai Kun	–	568,750	550,000	78,750	1,197,500
Total	–	3,968,900	4,950,000	374,610	9,293,510
Non-executive Directors					
Feng Xiao Zeng	–	–	–	–	–
Lin Fan	–	1,120,000	1,400,000	48,000	2,568,000
Wu Chi Hung	–	–	–	–	–
Ip Tak Chuen, Edmond	–	–	–	–	–
Ma Lai Chee, Gerald	–	–	–	–	–
Lee Yim Hong, Lawrence	–	–	–	–	–
Hong Kam Cheung	100,000	–	–	–	100,000
Yuen Shu Tong	58,000	–	–	–	58,000
Dong Juan	58,000	–	–	–	58,000
Wong Hay Chih	16,000	–	–	–	16,000
Yu Ziyou	16,000	–	–	–	16,000
	248,000	1,120,000	1,400,000	48,000	2,816,000

Note: Discretionary bonuses included amounts paid of $1,400,000 for 2005 and amounts accrued of $4,950,000 for 2006.

(Expressed in Hong Kong dollars)

10 Directors' emoluments (Continued)

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

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

Note: Discretionary bonuses represented bonuses paid for 2004.

(Expressed in Hong Kong dollars)

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2005: two) of them are Directors whose emoluments are disclosed in note 10. The emolument payable to the remaining one (2005: three) individual during the year is as follows:

	2006	2005
	$	$
Salaries and other emoluments	**696,672**	1,943,962
Discretionary bonuses	**870,000**	560,000
Retirement scheme contributions	**63,000**	148,885
	1,629,672	2,652,847

The emolument of the one (2005: three) individual with the highest emoluments is within the following bands:

	Number of individuals	
	2006	2005
Amounts in $		
Nil – 1,000,000	**–**	3
1,000,001 – 2,000,000	**1**	–
	1	3

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

12 Profit attributable to equity holders of the Company

The consolidated profit attributable to equity holders of the Company includes a profit of $38,591,486 which has been dealt with in the financial statements of the Company for the year ended 31 December 2006.

13 Dividend

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

14 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company for the year of $306,409,857 and the weighted average number of 2,216,474,904 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity holders of the Company for the year of $570,014,056 and 2,200,000,000 shares in issue as at the date of the Prospectus as if the shares were outstanding throughout the year.

(Expressed in Hong Kong dollars)

14 Earnings per share (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity holders of the Company for the year of $306,409,857 and the weighted average number of 2,221,367,644 shares after adjusting for the effects of all dilutive potential ordinary shares under the over-allotment option (see note 38).

The calculation of weighted average number of shares (diluted) for the year ended 31 December 2006 is calculated as follows:

	2006
	Number of Shares
Weighted average number of shares	**2,216,474,904**
Effect of exercise of over-allotment option	**4,892,740**
Weighted average number of shares (diluted)	**2,221,367,644**

There were no dilutive potential ordinary shares as at 31 December 2005.

15 Statutory deposits

A subsidiary and the branches of the Group located in the PRC have placed $58,540,501 and $110,403,647 for the years ended 31 December 2005 and 2006 with banks respectively as capital guarantee funds.

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

(Expressed in Hong Kong dollars)

16 Fixed assets

	Land and buildings $	Buildings $	Furniture and equipment $	Property and equipment sub-total $	Investment properties $	Interests in leasehold land held for own use under operating leases $	Total $
Cost or valuation:							
At 1 January 2006	53,066,852	82,134,000	59,775,165	194,976,017	929,437,629	312,826,000	1,437,239,646
Exchange adjustments	860,070	–	389,944	1,250,014	–	–	1,250,014
Additions	927,551	–	5,740,506	6,668,057	–	–	6,668,057
Disposals	(1,828,281)	–	(5,999,892)	(7,828,173)	–	–	(7,828,173)
Transfer to investment properties	(7,950,625)	–	–	(7,950,625)	5,570,455	–	(2,380,170)
Fair value adjustment	–	–	–	–	20,181,916	–	20,181,916
At 31 December 2006	45,075,567	82,134,000	59,905,723	187,115,290	955,190,000	312,826,000	1,455,131,290
Representing:							
Cost	45,075,567	82,134,000	59,905,723	187,115,290	–	312,826,000	499,941,290
Valuation – 2006	–	–	–	–	955,190,000	–	955,190,000
	45,075,567	82,134,000	59,905,723	187,115,290	955,190,000	312,826,000	1,455,131,290
Accumulated depreciation and impairment:							
At 1 January 2006	(25,600,869)	(9,228,709)	(47,439,346)	(82,268,924)	–	(80,489,155)	(162,758,079)
Exchange adjustments	(970,858)	–	(251,670)	(1,222,528)	–	–	(1,222,528)
Charge for the year	(1,410,786)	(1,656,937)	(4,012,910)	(7,080,633)	–	(277,750)	(7,358,383)
Impairment loss written back/(provided)	4,323,425	–	–	4,323,425	–	(4,770,448)	(447,023)
Written back on disposals	1,256,943	–	4,988,774	6,245,717	–	–	6,245,717
Transfer to investment properties	2,380,170	–	–	2,380,170	–	–	2,380,170
At 31 December 2006	(20,021,975)	(10,885,646)	(46,715,152)	(77,622,773)	–	(85,537,353)	(163,160,126)
Net book value:							
At 31 December 2006	25,053,592	71,248,354	13,190,571	109,492,517	955,190,000	227,288,647	1,291,971,164

(Expressed in Hong Kong dollars)

16 Fixed assets (Continued)

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

(Expressed in Hong Kong dollars)

16 Fixed assets (Continued)

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

	2006	2005
	$	$
In Hong Kong		
– long leases	**1,201,480,496**	1,190,695,883
– medium-term leases	**69,094,142**	66,402,943
Outside Hong Kong		
– medium-term leases	**8,205,955**	5,046,922
	1,278,780,593	1,262,145,748
Representing:		
Land and buildings carried at cost	**25,053,592**	27,465,983
Buildings carried at cost	**71,248,354**	72,905,291
Investment properties carried at fair value	**955,190,000**	929,437,629
Interests in leasehold land held for own use under operating leases carried at cost	**227,288,647**	232,336,845
	1,278,780,593	1,262,145,748

(b) Investment properties of the Group were revalued by an independent firm of surveyors, CB Richard Ellis Limited (2005: FPD Savills (Hong Kong) Limited), who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The revaluation surpluses of $181,896,112 and $20,181,916 have been credited to the consolidated income statements of the Group for the years ended 31 December 2005 and 2006 respectively.

(c) The Directors conducted a review of the Group's land and buildings and leasehold land held for own use under operating leases with reference to the valuation of an independent firm of surveyors, CB Richard Ellis Limited (2005: FPD Savills (Hong Kong) Limited), and determined the provision or reversal of the impairment of certain land and buildings and leasehold land held for own use under operating leases. Accordingly, reversals of impairment losses of $24,897,107 have been credited to the consolidated income statement of the Group for the year ended 31 December 2005 and net provision of impairment losses of $447,023 have been charged to the consolidated income statement for the year ended 31 December 2006.

(Expressed in Hong Kong dollars)

16 Fixed assets (Continued)

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

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

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

	2006	2005
	$	$
Within 1 year	31,222,566	29,773,266
After 1 year but within 5 years	24,249,525	24,432,130
	55,472,091	54,205,396

17 Investments in subsidiaries

	The Company	
	2006	2005
	$	$
Unlisted shares, at cost	1,997,602,872	–

All of the companies listed below are controlled subsidiaries as defined under note 3(d) and have been consolidated into the Group's financial statements.

Name of Company	Place and date of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Canon Limited	Hong Kong 22 October 1999	1,000,000 ordinary shares of $1 each	–	100%	Property investment
Charter Firm Limited	Hong Kong 22 October 1999	1,000,000 ordinary shares of $1 each	–	100%	Property investment
Chellink Investment Limited ("Chellink")	Hong Kong 19 September 1991	10,000 ordinary shares of $1 each	–	100%	Property investment
China Insurance Group Realty Company Limited	Hong Kong 21 June 1994	10,000,000 ordinary shares of $1 each	–	100%	Property investment

(Expressed in Hong Kong dollars)

17 Investments in subsidiaries (Continued)

Name of Company	Place and date of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Equity Survey Claim Service Company Limited	Hong Kong 24 October 1995	1,000,000 ordinary shares of $1 each	–	100%	Provision of insurance claim survey services
Jacton Limited	Hong Kong 22 October 1999	1,000,000 ordinary shares of $1 each	–	100%	Property investment
Joyful Box Inc.	The British Virgin Islands/ Hong Kong 5 July 2000	1 ordinary share of US$1 each	–	100%	Holding of securities
King System Limited	The British Virgin Islands/ Hong Kong 5 July 2000	1 ordinary share of US$1 each	–	100%	Holding of securities
Ming An (Overseas) Inc.	The Republic of Panama/ Hong Kong 1 May 2003	100 ordinary shares of US$4,000 each	–	100%	Investment holding and provision of management services
Onah Investments Limited ("Onah")	Hong Kong 13 August 1991	10,000 ordinary shares of $1 each	–	100%	Property investment
Orient Sino Development Limited	Hong Kong 6 February 1996	2 ordinary shares of $1 each	–	100%	Provision of property agency services to group companies
Richtex Investment Limited ("Richtex") (note (a))	Hong Kong 15 August 1991	10,000 ordinary shares of $1 each	–	100%	Property investment

(Expressed in Hong Kong dollars)

17 Investments in subsidiaries (Continued)

Name of Company	Place and date of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Company	Proportion of ownership interest held by a subsidiary	Principal activities
Sermax Investments Limited ("Sermax") (note (a))	Hong Kong 20 April 1995	2 ordinary shares of $1 each	–	100%	Holding of securities
Shenzhen CIG Ming An Insurance Brokers Company Limited	The PRC 12 October 2006	Registered capital of RMB5,000,000	–	100%	Insurance broker
The Ming An Insurance Company (China), Limited	The PRC 10 January 2005	Registered capital of RMB500,000,000	–	100%	General insurance business
The Ming An Insurance Company (Hong Kong), Limited ("Ming An Hong Kong")	Hong Kong 29 September 1949	11,360,000 ordinary shares of $100 each 2,000,000 deferred shares of $100 each	100%	–	General insurance business and investment holding
The Tai Ping Insurance (Agency) Company, Limited* (note (b))	Hong Kong 8 December 1950	1,000 ordinary shares of $100 each	–	100%	Inactive
Victory Max Limited	Hong Kong 11 August 1999	1,000,000 ordinary shares of $1 each	–	100%	Property investment

* Formerly known as "The Tai Ping Underwriters (Hong Kong) Limited"

(Expressed in Hong Kong dollars)

17 Investments in subsidiaries (Continued)

Notes:

(a) The entire shareholding of Richtex and Sermax, the wholly owned subsidiaries of the Group, were disposed of to a fellow subsidiary of the Company on 30 May 2006 (see notes 34(b)(iv), 34(b)(v) and 34(b)(vi)).

(b) On 24 March 2006, the Group acquired the minority interest of 1% in The Tai Ping Insurance Agency Limited which then became a wholly owned subsidiary of the Group.

(c) No dividend has been paid or declared by the subsidiaries of the Company during the years ended 31 December 2005 and 2006 except for Ming An Overseas Inc. which declared dividend of $776,165 and $775,330 to Ming An Hong Kong, its immediate holding company, for the years ended 31 December 2005 and 2006.

18 Interests in associates

	2006	2005
	$	$
Share of net assets	4,679,521	10,319,347
Loan to an associate	–	9,660,000
	4,679,521	19,979,347

(a) Loan to an associate was unsecured, interest-free and had no fixed terms of repayment. In the opinion of the Directors, the amount would be repayable after more than one year.

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

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

Note: On 19 May 2006, the Group disposed of its 30% interests in Sanlink together with the shareholder's loan of $9,660,000 to a fellow subsidiary of the Group (see note 34(b)(vii)).

(Expressed in Hong Kong dollars)

18 Interests in associates (Continued)

(c) Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profits
	$	$	$	$	$
31 December 2006					
100 per cent	**66,807,246**	**52,772,078**	**14,035,168**	**11,206,289**	**2,865,557**
Group's effective interest	**22,274,495**	**17,594,974**	**4,679,521**	**3,735,430**	**955,186**
31 December 2005					
100 per cent	105,636,298	73,231,177	32,405,121	12,228,382	3,819,244
Group's effective interest	33,662,702	23,343,355	10,319,347	3,995,457	1,192,977

There were no unrecognised share of losses of associates for the years ended 31 December 2005 and 2006 respectively.

(Expressed in Hong Kong dollars)

19 Investments in securities

	Available-for-sale securities		Securities held for trading		Total	
	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$
Fixed interest securities						
– Government: Listed	–	–	28,147,622	28,611,266	28,147,622	28,611,266
– Others: Listed	–	–	93,902,053	103,126,003	93,902,053	103,126,003
	–	–	122,049,675	131,737,269	122,049,675	131,737,269
Variable interest securities						
– Others: Unlisted	–	–	–	7,709,882	–	7,709,882
Equity securities						
– Listed	422,518,400	252,691,500	66,387,346	21,657,256	488,905,746	274,348,756
– Unlisted	2,269,668	38,620,450	–	–	2,269,668	38,620,450
	424,788,068	291,311,950	66,387,346	21,657,256	491,175,414	312,969,206
Other						
– Unlisted	492,100	492,100	–	–	492,100	492,100
Total	425,280,168	291,804,050	188,437,021	161,104,407	613,717,189	452,908,457
Representing:						
Listed						
– Hong Kong	422,518,400	252,691,500	66,387,346	21,452,171	488,905,746	274,143,671
– Overseas	–	–	122,049,675	131,942,354	122,049,675	131,942,354
Unlisted	2,761,768	39,112,550	–	7,709,882	2,761,768	46,822,432
	425,280,168	291,804,050	188,437,021	161,104,407	613,717,189	452,908,457
Market value of listed securities	422,518,400	252,691,500	188,437,021	153,394,525	610,955,421	406,086,025

Accounting estimates and judgements

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

(Expressed in Hong Kong dollars)

20 Insurance receivables

	2006 $	2005 $
Premiums receivable under direct business	**193,704,717**	196,003,860
Amounts due under reinsurance contracts	**56,234,903**	958,727,549
	249,939,620	1,154,731,409
Deposits retained by cedants	**208,654**	221,315
	250,148,274	1,154,952,724
Amounts expected to be settled within 1 year		
– Premiums receivable under direct business	**191,971,221**	184,222,187
– Amounts due under reinsurance contracts	**43,176,952**	222,471,022
	235,148,173	406,693,209

Included in the amounts due under reinsurance contracts as at 31 December 2005 was the amount due from a reinsurer of $885,530,116. The amount was included in the ageing analysis under the category of over 1 year overdue. The balance of $885,530,116 has been settled on 30 June 2006 (see note 34(b)(iii)).

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

	2006 $	2005 $
Current	**224,793,432**	172,978,476
1 to 3 months overdue	**2,843,532**	9,241,112
More than 3 months overdue but less than 12 months overdue	**7,511,209**	6,848,132
Over 1 year overdue	**14,791,447**	965,663,689
	249,939,620	1,154,731,409

The Group normally allows a credit period ranging from 0-90 days for premium receivables under direct business and 50 days to 90 days for the amounts due from reinsurance contracts after the quarterly statements have been sent (see note 32(b)(ii)).

21 Other receivables

	The Group		The Company
	2006 $	2005 $	2006 $
Deposits	**6,041,820**	5,834,411	**–**
Prepayments	**3,189,132**	816,461	**–**
Other receivables	**21,650,089**	23,453,083	**1,510,053**
	30,881,041	30,103,955	**1,510,053**
Amounts expected to be settled within 1 year	**19,770,055**	19,200,376	**1,510,053**

(Expressed in Hong Kong dollars)

22 Insurance funds

	Claims incurred but not reported $	Provision for reported claims $	Sub-total $	Provision for unearned premiums $	Provision for unexpired risks $	Total $
At 1 January 2006						
Gross insurance funds	741,717,366	1,975,235,385	2,716,952,751	467,045,125	7,648,800	3,191,646,676
Movements in 2006	612,238	124,611,487	125,223,725	29,709,484	1,201,200	156,134,409
At 31 December 2006						
Gross insurance funds	742,329,604	2,099,846,872	2,842,176,476	496,754,609	8,850,000	3,347,781,085
Reinsurers' share	(423,360,775)	(1,127,408,365)	(1,550,769,140)	(139,521,352)	3,793,000	(1,686,497,492)
Net insurance funds	318,968,829	972,438,507	1,291,407,336	357,233,257	12,643,000	1,661,283,593
Current (gross)	330,568,990	644,860,536	975,429,526	441,205,633	7,860,360	1,424,495,519
Non-current (gross)	411,760,614	1,454,986,336	1,866,746,950	55,548,976	989,640	1,923,285,566
Current (net)	167,397,257	180,327,324	347,724,581	311,831,012	11,036,149	670,591,742
Non-current (net)	151,571,572	792,111,183	943,682,755	45,402,245	1,606,851	990,691,851

	Claims incurred but not reported $	Provision for reported claims $	Sub-total $	Provision for unearned premiums $	Provision for unexpired risks $	Total $
At 1 January 2005						
Gross insurance funds	796,190,247	2,326,795,014	3,122,985,261	540,725,972	–	3,663,711,233
Movements in 2005	(54,472,881)	(351,559,629)	(406,032,510)	(73,680,847)	7,648,800	(472,064,557)
At 31 December 2005						
Gross insurance funds	741,717,366	1,975,235,385	2,716,952,751	467,045,125	7,648,800	3,191,646,676
Reinsurers' share	(287,321,595)	(859,250,521)	(1,146,572,116)	(121,112,358)	10,851,200	(1,256,833,274)
Net insurance funds	454,395,771	1,115,984,864	1,570,380,635	345,932,767	18,500,000	1,934,813,402
Current (gross)	218,554,398	582,022,751	800,577,149	406,804,112	7,326,815	1,214,708,076
Non-current (gross)	523,162,968	1,393,212,634	1,916,375,602	60,241,013	321,985	1,976,938,600
Current (net)	136,439,840	336,454,796	472,894,636	296,409,056	18,034,185	787,337,877
Non-current (net)	317,955,931	779,530,068	1,097,485,999	49,523,711	465,815	1,147,475,525

(Expressed in Hong Kong dollars)

22 Insurance funds (Continued)

(i) Analysis of movements in provision for outstanding claims

	2006			2005		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January	**2,716,952,751**	**(1,146,572,116)**	**1,570,380,635**	3,122,985,261	(1,232,214,428)	1,890,770,833
Claims arising in current year	**1,106,494,232**	**(679,047,288)**	**427,446,944**	637,472,864	(225,559,438)	411,913,426
Change in claims arising in prior years	**(207,630,716)**	**(53,199,301)**	**(260,830,017)**	(237,343,605)	(21,708,916)	(259,052,521)
Settlement of claims arising in current year	**(131,064,706)**	**51,342,343**	**(79,722,363)**	(117,935,089)	44,825,509	(73,109,580)
Settlement of claims arising in prior years	**(642,575,085)**	**276,707,222**	**(365,867,863)**	(688,226,680)	288,085,157	(400,141,523)
At 31 December	**2,842,176,476**	**(1,550,769,140)**	**1,291,407,336**	2,716,952,751	(1,146,572,116)	1,570,380,635

(ii) Analysis of movements in provision for unearned premiums

	2006			2005		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January	**467,045,125**	**(121,112,358)**	**345,932,767**	540,725,972	(175,902,833)	364,823,139
Premium written/(ceded) during the year	**1,076,161,271**	**(437,115,254)**	**639,046,017**	1,099,506,970	(412,340,069)	687,166,901
Premiums earned during the year	**(1,046,451,787)**	**418,706,260**	**(627,745,527)**	(1,173,187,817)	467,130,544	(706,057,273)
At 31 December	**496,754,609**	**(139,521,352)**	**357,233,257**	467,045,125	(121,112,358)	345,932,767

(iii) Analysis of movements in provision for unexpired risks

	2006			2005		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At 1 January	**7,648,800**	**10,851,200**	**18,500,000**	–	6,500,000	6,500,000
New provision established during the year	**1,201,200**	**(7,058,200)**	**(5,857,000)**	7,648,800	4,351,200	12,000,000
At 31 December	**8,850,000**	**3,793,000**	**12,643,000**	7,648,800	10,851,200	18,500,000

(iv) Process used to determine the assumptions

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

22 Insurance funds (Continued)

(iv) Process used to determine the assumptions (Continued)

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

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

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

(v) Assumptions, methodologies and sensitivities

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

– The past claims development experience can be used to project future claims development and hence the ultimate claims costs.

– There are no significant changes in the legal, social or economic environment that may affect the cost, frequency or future reporting of claims.

During both years presented, there were no significant changes in the key assumptions used by the Group in estimating insurance funds.

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

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

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

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

(Expressed in Hong Kong dollars)

23 Amounts due from/to fellow subsidiaries, shareholders, affiliated companies and the immediate holding company

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

24 Cash and cash equivalents

	The Group		The Company
	2006	2005	**2006**
	$	$	**$**
Deposits with banks and other financial institutions with original maturity less than 3 months	**2,519,744,218**	524,562,097	**1,100,000,000**
Cash at bank and in hand	**292,038,099**	289,981,101	**27,619,429**
Cash and cash equivalents	**2,811,782,317**	814,543,198	**1,127,619,429**

25 Insurance protection fund

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

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

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

26 Insurance payables

	2006	2005
	$	$
Amounts due under direct business	**123,366,245**	124,605,484
Amounts due under reinsurance contracts accepted	**1,684,782**	2,181,309
Amounts due under reinsurance contracts ceded	**116,297,542**	133,735,364
	241,348,569	260,522,157
Deposits retained from reinsurers	**165,000,210**	149,282,517
	406,348,779	409,804,674
Amounts expected to be settled within 1 year:		
– Amounts due under direct business	**110,920,679**	114,894,891
– Amounts due under reinsurance contracts accepted	**1,065,656**	1,525,850
– Amounts due under reinsurance contracts ceded	**34,174,855**	48,609,018
	146,161,190	165,029,759

(Expressed in Hong Kong dollars)

26 Insurance payables (Continued)

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

	2006	2005
	$	$
Current or on demand	101,638,513	218,332,839
1 to 3 months overdue	11,371,963	7,317,882
More than 3 months overdue but less than 12 months overdue	33,150,714	5,903,741
Over 1 year overdue	95,187,379	28,967,695
	241,348,569	260,522,157

27 Other payables

	The Group		The Company
	2006	2005	2006
	$	$	$
Deposits and receipts in advance	10,687,054	16,991,192	–
Other payables	86,365,774	26,885,414	31,121,517
	97,052,828	43,876,606	31,121,517
Amounts expected to be settled within 1 year	81,648,078	27,775,879	31,121,517

28 Capital and reserves

(a) Share capital

	Number of shares	Amount
		$
Authorised:		
Ordinary shares of $0.1 each	5,000,000,000	500,000,000
Issued and fully paid:		
At 5 September 2006 (note (i))	1	0
Issuance of new shares on Reorganisation (note (ii))	2,199,999,999	220,000,000
Issuance of shares for the Global Offering (note (iii))	601,334,000	60,133,400
At 31 December 2006	2,801,334,000	280,133,400

28 Capital and reserves (Continued)

(a) Share capital (Continued)

(i) The Company was incorporated on 5 September 2006 with an authorised share capital of $500,000,000 divided into 5,000,000,000 ordinary shares of $0.1 each. On the same day, one subscriber's share in the Company was allotted and issued to Reid Services Limited and was transferred to its immediate holding company, China Insurance H.K. (Holdings) Company Limited ("CIHK"), for a consideration of $0.1.

(ii) The transfer was registered in the Cayman Islands. On 29 November 2006, the Board of Directors of the Company approved and authorised the allotment and issuance of 1,454,199,999, 638,000,000 and 107,800,000 shares to CIHK, Marvel Bonus International Limited and Share China Assets Limited respectively, credited as fully paid, as a consideration for the transfer of the entire issued ordinary share capital of Ming An Hong Kong pursuant to the terms of the Reorganisation Agreement dated 29 November 2006.

(iii) On 22 December 2006, 601,334,000 additional ordinary shares were issued and offered for subscription at a price of $1.88 per share upon the listing of the Company's shares on the main board of the Stock Exchange. The proceeds of $60,133,400 representing the par value were credited to the Company's share capital. The remaining proceeds of $1,070,374,520 were credited to the share premium account.

(iv) For the purpose of this report, share capital in the Group's consolidated balance sheet as at 31 December 2005 represents the registered issued share capital of Ming An Hong Kong comprising 11,360,000 ordinary shares of $100 each and 2,000,000 deferred shares of $100 each.

(v) All new ordinary shares issued during the year ended 31 December 2006 rank equally with regard to the Company's residual assets.

(b) Nature and purpose of reserves

(i) General reserve

Pursuant to a minute of the Board of Directors of Ming An Hong Kong passed on 28 December 2005, the general reserve was cancelled and transferred to accumulated losses/retained profits.

(ii) Reserves required under local regulatory requirements

In 2005, in accordance with the Company Law of the PRC, a subsidiary established in the PRC is required to allocate 10% and 5% to 10% of their profits after tax to the statutory surplus reserve and the statutory public welfare fund respectively. No allocation to the statutory surplus reserve is required after the balance of such reserve reaches 50% of the registered capital of the subsidiary. With the Company Law of the PRC amended on 27 October 2005, the Group was no longer required to allocate 5% to 10% of their profit after tax as statutory public welfare fund.

(iii) Capital reserve

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

(Expressed in Hong Kong dollars)

28 Capital and reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries. The reserve is dealt with in accordance with the accounting policies set out in note 3(t).

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in notes 3(k) and 3(n).

(vi) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(vii) The Company

The movement of the share premium and retained profits of the Company is as follows:

	Share premium $	Retained profits $	Total $
At 5 September 2006	–	–	–
Issuance of new shares on Reorganisation	**1,777,602,872**	–	**1,777,602,872**
Issuance of new shares for the Global Offering	**1,070,374,520**	–	**1,070,374,520**
Share issuing expenses	**(74,468,510)**	–	**(74,468,510)**
Profits for the year	–	**38,591,486**	**38,591,486**
At 31 December 2006	**2,773,508,882**	**38,591,486**	**2,812,100,368**

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company is $2,812,100,368.

29 Capital commitment

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

	2006 $	2005 $
Contracted for	**2,527,334**	–

(Expressed in Hong Kong dollars)

30 Operating lease commitments

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

	2006	2005
	$	$
Within 1 year	**2,662,371**	740,619
After 1 year but within 5 years	**3,640,461**	42,000
	6,302,832	782,619

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

31 Contingent liabilities

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

	2006	2005
	$	$
Letter of guarantee issued	**–**	21,865,421

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

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

Save as herein disclosed above and other than those incurred in the normal course of the Group's insurance business, there was no outstanding litigations nor any contingent liabilities as at 31 December 2006.

32 Insurance and financial risk management

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

(a) Insurance risk

(i) Underwriting strategy and policies to mitigate insurance risk

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

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

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

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

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(a) Insurance risk (Continued)

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

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

(iii) Major concentration of insurance risk

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

	2006	2005
	%	%
Fire	27	25
Motor	27	29
Employees' compensation	22	15

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

	2006	2005
	%	%
Hong Kong	78	76
The PRC	22	24

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(a) Insurance risk (Continued)

(iv) Claims development

Analysis of claims development – gross

Gross

	Prior years	1999	2000	2001	2002	2003	2004	2005	2006	Total
	$	$	$	$	$	$	$	$	$	$
Accident year										
Direct and facultative inward business:										
Estimate of cumulative claims										
– At end of accident year	2,282,370,507	1,214,328,784	1,673,149,519	1,403,172,912	810,332,556	654,328,237	648,774,052	637,472,865	1,106,494,232	
– One year later	2,318,626,177	1,384,636,692	1,580,648,201	1,194,609,237	1,024,885,830	831,286,525	625,985,780	599,424,666	-	
– Two years later	4,390,375,008	1,593,607,945	1,774,594,723	1,486,681,577	1,108,869,449	886,177,708	592,849,278	-	-	
– Three years later	3,959,420,057	1,721,985,829	1,745,366,721	1,291,207,463	1,119,432,964	975,452,837	-	-	-	
– Four years later	3,891,732,573	1,598,409,854	1,567,155,592	1,216,098,934	1,056,475,919	-	-	-	-	
– Five years later	3,759,893,203	1,534,304,421	1,515,685,368	1,156,127,620	-	-	-	-	-	
– Six years later	3,635,331,743	1,475,885,129	1,450,874,964	-	-	-	-	-	-	
– Seven years later	3,544,798,424	1,452,918,645	-	-	-	-	-	-	-	
– Eight years later	3,531,856,946	-	-	-	-	-	-	-	-	
2006										
Direct and facultative inward business:										
Estimate of cumulative claims for the year ended 31 December 2006	3,531,856,946	1,452,918,645	1,450,874,964	1,156,127,620	1,056,475,919	975,452,837	592,849,278	599,424,666	1,106,494,232	11,922,475,107
Cumulative payments to 31 December 2006	(3,379,673,722)	(1,369,991,730)	(1,306,718,602)	(1,003,928,327)	(818,375,908)	(533,681,707)	(297,276,980)	(243,459,943)	(131,064,707)	(9,084,171,626)
Liabilities recognised in the balance sheet as at 31 December 2006	152,183,224	82,926,915	144,156,362	152,199,293	238,100,011	441,771,130	295,572,298	355,964,723	975,429,525	2,838,303,481
Inward treaty business as at 31 December 2006										3,872,995
Total gross liabilities included in the balance sheet										2,842,176,476

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(a) Insurance risk (Continued)

(iv) Claims development (Continued)

Analysis of claims development – gross (Continued)

Gross (Continued)

	Prior years	1999	2000	2001	2002	2003	2004	2005	Total
	$	$	$	$	$	$	$	$	$
Accident year									
2005									
Direct and facultative inward business:									
Estimate of cumulative claims for the year ended 31 December 2005	3,544,798,424	1,475,885,129	1,515,685,368	1,216,098,934	1,119,432,964	886,177,708	625,985,780	637,472,865	11,021,537,172
Cumulative payments to 31 December 2005	(3,330,312,017)	(1,350,252,388)	(1,267,787,778)	(927,223,374)	(682,649,754)	(401,018,862)	(233,352,572)	(117,935,089)	(8,310,531,834)
Liabilities recognised in the balance sheet as at 31 December 2005	214,486,407	125,632,741	247,897,590	288,875,560	436,783,210	485,158,846	392,633,208	519,537,776	2,711,005,338
Inward treaty business as at 31 December 2005									5,947,413
Total gross liabilities included in the balance sheet									2,716,952,751

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(a) Insurance risk (Continued)

(iv) Claims development (Continued)

Analysis of claims development – net of reinsurance

Net

	Prior years	1999	2000	2001	2002	2003	2004	2005	2006	Total
	$	$	$	$	$	$	$	$	$	$
Accident year										
Direct and facultative inward business:										
Estimate of cumulative claims										
– At end of accident year	973,636,081	536,603,600	874,347,143	792,088,487	509,566,215	388,596,278	410,004,194	411,913,427	427,446,944	
– One year later	1,027,539,713	755,878,166	964,594,357	735,518,994	606,140,807	510,269,129	396,783,927	385,886,561	-	
– Two years later	1,791,551,657	921,204,357	1,088,167,843	883,045,191	653,447,402	505,934,034	360,698,493	-	-	
– Three years later	1,791,525,769	962,691,271	1,039,167,971	749,116,248	654,195,447	447,146,249	-	-	-	
– Four years later	1,699,014,942	875,170,964	919,497,863	689,105,633	597,356,150	-	-	-	-	
– Five years later	1,627,772,458	875,636,639	888,146,909	673,601,301	-	-	-	-	-	
– Six years later	1,673,552,457	826,966,962	850,649,867	-	-	-	-	-	-	
– Seven years later	1,575,831,209	817,154,144	-	-	-	-	-	-	-	
– Eight years later	1,557,629,184	-	-	-	-	-	-	-	-	
2006										
Direct and facultative inward business:										
Estimate of cumulative claims for the year ended 31 December 2006	1,557,629,184	817,154,144	850,649,867	673,601,301	597,356,150	447,146,249	360,698,493	385,886,561	427,446,944	6,117,568,893
Cumulative payments to 31 December 2006	(1,495,534,546)	(764,992,646)	(784,649,511)	(599,843,376)	(480,679,931)	(313,769,580)	(170,316,474)	(140,526,124)	(79,722,364)	(4,830,034,552)
Liabilities recognised in the balance sheet as at 31 December 2006	62,094,638	52,161,498	66,000,356	73,757,925	116,676,219	133,376,669	190,382,019	245,360,437	347,724,580	1,287,534,341
Inward treaty business as at 31 December 2006										3,872,995
Total net liabilities included in the balance sheet										1,291,407,336

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(a) Insurance risk (Continued)

(iv) Claims development (Continued)

Analysis of claims development – net of reinsurance (Continued)

Net (Continued)

	Prior years	1999	2000	2001	2002	2003	2004	2005	Total
	$	$	$	$	$	$	$	$	$
Accident year									
2005									
Direct and facultative inward business:									
Estimate of cumulative claims for the year ended 31 December 2005	1,575,831,209	826,966,962	888,146,909	689,105,633	654,195,447	505,934,034	396,783,927	411,913,427	5,948,877,548
Cumulative payments to 31 December 2005	(1,473,765,689)	(754,153,432)	(761,065,027)	(555,844,393)	(411,574,731)	(226,642,324)	(128,289,151)	(73,109,580)	(4,384,444,327)
Liabilities recognised in the balance sheet as at 31 December 2005	102,065,520	72,813,530	127,081,882	133,261,240	242,620,716	279,291,710	268,494,776	338,803,847	1,564,433,221
Inward treaty business as at 31 December 2005									5,947,414
Total net liabilities included in the balance sheet									1,570,380,635

32 Insurance and financial risk management (Continued)

(b) Financial risk

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

(i) Liquidity risk

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

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

During both years presented, the Group generated positive cash flows and had sufficient cash to meet all its obligations.

(ii) Credit risk

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

The Group is subject to the credit risk of its reinsurers in the event of insolvency or the reinsurer's failure to honour their payment commitment. To reduce such risks, a list of approved reinsurers is maintained and reviewed regularly and the reinsurance business across various reinsurers is dispersed. Business may only be ceded to companies appearing on the approved list. Reinsurers are ultimately selected on the basis of their financial condition, history of cooperation, quality of service and price of their reinsurance products. In addition, strict debt collection procedures are established and closely followed by the Group.

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

The Group is also subject to the credit risk of the intermediaries. As a result, strict internal policies are followed to closely monitor and assess the financial strength of each intermediary. Based on such assessment, credit periods up to a maximum of four months are extended to the Group's largest and most reputable intermediaries.

The Group's investment in debt securities is subject to credit risk. Deterioration of the financial condition or results of operations of the issuers of these instruments may cause a delay in payments of principal or interest when due, and may also result in potential loss in the market value of the securities. It is the Group's policy to invest in bonds with ratings of "BBB-" or above to limit exposure to credit risk.

32 Insurance and financial risk management (Continued)

(c) Market risk

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

(i) Interest rate risk

Interest rate risk is the risk to the earnings or market value of the investment portfolio due to the uncertainty in the future interest rates. The Group's exposure to interest rate changes primarily results from the holding of debt securities. As of 31 December 2006, the Group held approximately $122 million in debt securities (2005: $139 million). The market price of the Group's debt securities fluctuates with changes in interest rates. When interest rates rise, the market value of these debt securities falls. When interest rates fall, the market value of these securities rises. The Group's debt securities include government bonds, bonds issued by financial institutions and corporate bonds with a rating at or greater than "BBB", most of which are exposed to interest rate risk. Interest rate risks may also affect the Group's future investments.

Given the small proportion of debt securities in the Group's investment portfolio, the Group's exposure to interest rate risk is limited. While a greater proportion of the Group's investment is held as bank deposits, the Group's bank deposits are primarily held in only three currencies and consequently deposit interest rate risk is also limited with respect to those funds. In addition, although investments in debt securities are classified as securities held for trading, disposals will not be effected if the market prices are considered unattractive, in which case they are held to maturity to redeem at par.

The Group's debt securities portfolio is managed by China Insurance Group Assets Management Limited ("CIGAML") under the direction of the Group's Investment Committee. The Group manages its exposure to risks associated with interest rate fluctuations through quarterly review of its investment portfolio by its Investment Committee, annual in-depth review of the Group's investment policy together with CIGAML and consultation with external financial investment experts. CIGAML provides the Group with a weekly report on its investment portfolio, and the Group monitors trends to refine its investment policy accordingly. The Group's goal is to maintain liquidity, to preserve capital, to generate stable returns and to achieve better asset to liability matching. In the future, the Group expects to increase the proportion of debt securities in its investment portfolio.

Interest rate risk sensitivity is estimated under the assumption of a 1% increase in interest rates. If interest rates increase, the fair values of interest rate-sensitive instruments such as bonds may decrease. Furthermore, the magnitude of the decrease may be different depending on the maturity, coupon or other characteristics of a particular instrument.

Assuming a simultaneous and instantaneous 1% increase in interest rates, the aggregate fair value of the Group's interest rate-sensitive bond instruments would be decreased by $3 million (2005: $4 million).

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

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

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

Effective interest rates and repricing analysis

The Group
2006

	Up to 3 months $	3 to 6 months $	6 to 12 months $	1 to 5 years $	Over 5 years $	Non-interest bearing $	Total $	Weighted average effective interest rate
Maturity dates for assets/ liabilities which do not reprice before maturity								
Assets								
Financial assets								
– Statutory deposits	65,903,647	4,500,000	40,000,000	-	-	-	110,403,647	4.58%
– Equity securities	-	-	-	-	-	491,175,414	491,175,414	Not applicable
– Debt securities	-	-	26,516,739	94,150,210	1,382,726	-	122,049,675	5.56%
– Deposits with banks with original maturity more than three months	4,206,554	392,100	6,834,250	-	-	-	11,432,904	4.29%
– Cash and cash equivalents	2,614,897,404	-	-	-	-	196,884,913	2,811,782,317	3.07%
– Other receivables	-	-	-	-	-	30,881,041	30,881,041	Not applicable
– Other financial assets	-	-	-	-	-	351,519,077	351,519,077	Not applicable
Non-financial assets	-	-	-	-	-	3,053,036,380	3,053,036,380	Not applicable
Total assets	2,685,007,605	4,892,100	73,350,989	94,150,210	1,382,726	4,123,496,825	6,982,280,455	
Liabilities								
Financial liabilities								
– Insurance payables	-	-	-	-	-	406,348,779	406,348,779	Not applicable
– Other financial liabilities	-	-	-	-	-	97,411,894	97,411,894	Not applicable
Non-financial liabilities	-	-	-	-	-	3,352,416,115	3,352,416,115	Not applicable
Total liabilities	-	-	-	-	-	3,856,176,788	3,856,176,788	

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

Effective interest rates and repricing analysis (Continued)

The Group (Continued)
2005

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

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

Effective interest rates and repricing analysis (Continued)

The Company
2006

	Up to 3 months $	Non-interest bearing $	Total $	Weighted average effective interest rate
Maturity dates for assets/ liabilities which do not reprice before maturity				
Assets				
Financial assets				
– Interest in subsidiaries	–	1,997,602,872	1,997,602,872	Not applicable
– Cash and cash equivalents	1,108,345,066	19,274,363	1,127,619,429	3.59%
– Other receivables	–	1,510,053	1,510,053	Not applicable
– Other financial assets	–	1,652,016	1,652,016	Not applicable
Total assets	1,108,345,066	2,020,039,304	3,128,384,370	
Liabilities				
Financial liabilities				
– Other payables	–	31,121,517	31,121,517	Not applicable
– Other financial liabilities	–	5,029,085	5,029,085	Not applicable
Total liabilities	–	36,150,602	36,150,602	

32 Insurance and financial risk management (Continued)

(c) Market risk (Continued)

(ii) Equity price risk

The Group has a substantial investment in the listed shares of Pacific Century Insurance Holdings Limited ("PCIH"). As the Group intends to hold this investment for strategic purposes, it is grouped under available-for-sale securities with any change in fair value dealt with in equity and the operating results will not be affected by the fair value movement of the securities. At the end of 2005 and 2006, the Group held 91 million shares in PCIH with a total market value of $253 million and $423 million for the years ended 31 December 2005 and 2006 respectively which represents 81% and 86% for the years ended 31 December 2005 and 2006 respectively of total investment in equity securities. Except for the equity share in PCIH, substantially all of the equity portfolio is managed by CIGAML under the direction of the Investment Committee. Pursuant to the investment guidelines, CIGAML may not invest more than 30% of the funds under its management in equity securities. The Group manages the exposure to equity price risks through quarterly review of the investment portfolio by the Investment Committee, annual in-depth review of the investment policy together with CIGAML and consultation with external financial investment experts. The equity securities, with the exception of the Group's equity holdings in affiliated companies, must all be listed on the main board of the Stock Exchange.

Equity risk sensitivity is estimated by assuming a 1% decline in stock prices. If stock prices decrease, the fair value of the listed equity securities and listed equity investment funds will decrease. As the majority of the total investment in equity securities for the years ended 31 December 2005 and 2006 was comprised of the Group's holding of PCIH, the equity risk sensitivity primarily reflects the effect of a change in the price of PCIH shares.

Assuming a simultaneous 1% decline in the price of all of the equities held the aggregate fair value of the Group's listed equity securities and listed investment funds would be decreased by $4 million (2005: $3 million).

(iii) Foreign currency risk

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

Other than 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.

(Expressed in Hong Kong dollars)

32 Insurance and financial risk management (Continued)

(c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

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

2006

	RMB	USD	HKD	Others	Total
Assets					
Statutory deposits	–	42,903,663	67,499,984	–	110,403,647
Fixed assets					
– Investment properties	–	–	955,190,000	–	955,190,000
– Interests in leasehold land held for own use under operating leases	–	–	227,288,647	–	227,288,647
– Property and equipment	14,389,119	–	95,103,398	–	109,492,517
Interests in associates	–	–	4,679,521	–	4,679,521
Deferred tax assets	196,103	–	69,200,000	–	69,396,103
Investments in securities	–	122,049,675	491,667,514	–	613,717,189
Insurance receivables	19,184,939	34,621,438	195,589,913	751,984	250,148,274
Other receivables	4,481,785	3,456,223	22,874,266	68,767	30,881,041
Reinsurers' share of insurance funds	97,703,210	–	1,588,794,282	–	1,686,497,492
Amounts due from fellow subsidiaries	–	3,490,225	82,874,980	23,761	86,388,966
Amount due from affiliated companies	–	–	13,283,827	–	13,283,827
Amounts due from shareholders	–	–	1,698,010	–	1,698,010
Deposits with banks with original maturity more than three months	5,972,400	4,683,795	776,709	–	11,432,904
Cash and cash equivalents	247,033,019	431,539,851	2,121,923,041	11,286,406	2,811,782,317
	388,960,575	642,744,870	5,938,444,092	12,130,918	6,982,280,455
Liabilities					
Insurance funds	253,794,668	–	3,093,986,417	–	3,347,781,085
Insurance protection fund	33,571	–	–	–	33,571
Insurance payables	14,396,918	52,609,753	338,029,598	1,312,510	406,348,779
Other payables	6,445,493	208,965	90,307,307	91,063	97,052,828
Amount due to the immediate holding company	–	–	25,694	–	25,694
Amounts due to fellow subsidiaries	–	–	333,372	–	333,372
Current taxation	–	–	4,601,459	–	4,601,459
	274,670,650	52,818,718	3,527,283,847	1,403,573	3,856,176,788

32 Insurance and financial risk management (Continued)

(c) Market risk (Continued)

(iii) Foreign currency risk (Continued)

2005

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

All the assets and liabilities of the Company are denominated in HKD.

(Expressed in Hong Kong dollars)

33 Employee retirement benefits

The Group operates Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance and one Staff Provident Fund Scheme (the "SPF scheme") under the Occupational Retirement Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both schemes are defined contribution retirement plans administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to contribute an amount equal to 5% of the employees' relevant income (but subject to the maximum relevant income of $20,000 per month). Contributions to the MPF scheme vest immediately. For the SPF scheme, the Group is required to make contributions based on a certain percentage of the relevant employees' salaries which is dependent on their length of service with the Group. Forfeited contributions to the SPF scheme are used to reduce the Group's future contributions. During the years ended 31 December 2005 and 2006, forfeited contributions used to reduce the Group's future contributions amounted to $110,505 and $57,736 respectively.

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

The Group's total pension cost charged to the consolidated income statements for both years presented are disclosed in note 8(a).

34 Material related party transactions

(a) Recurring transactions with related parties

	Note	**2006**	2005
		$	$
Transactions with the China Insurance (Holdings) Company Limited Group ("CI Group"):			
Rental income	(i)	**5,456,748**	3,458,345
Training fee	(ii)	**(920,307)**	(400,000)
Business ceded to fellow subsidiaries	(iii)		
– Outward reinsurance premiums		**(1,154,631)**	(868,451)
– Commission income received		**544,993**	434,293
– Claims recoveries received		**549,479**	431,492
– Interest paid		**(3,676)**	(3,811)
Transactions with the China Insurance International Holdings Company Limited Group ("CIIH Group"):			
Business ceded to fellow subsidiaries	(iv)		
– Outward reinsurance premiums		**(75,549,096)**	(64,608,096)
– Commission income received		**20,044,256**	16,546,557
– Claims recoveries received		**72,586,643**	61,682,715
Investment management fees	(v)	**(1,152,591)**	(1,376,609)
Rental income	(vi)	**1,281,600**	1,281,600

34 Material related party transactions (Continued)

(a) Recurring transactions with related parties (Continued)

	Note	**2006**	2005
		$	$
Transactions with Cheung Kong Group ("CK Group"):			
Gross written premiums	(vii)	**1,441,017**	–
Facility rental fee	(viii)	**(963,916)**	–
Commission paid	(viii)	**(318,461)**	–
Brokerage fee	(ix)	**–**	–

The transactions mentioned above constitute connected transactions under the Listing Rules. For items listed above except (iii), a waiver has been granted by the Stock Exchange to the Company from strict compliance with requirements of connected transactions rules of the Listing Rules in respect of the connected transactions set out above.

Notes:

CI Group

(i) The Group leased a number of offices, residential units and car parking spaces including units in Ming An Plaza, China Insurance Group Building and Fortress Metro Tower to China Insurance Hong Kong (Holdings) Company Limited ("CIHK"), its immediate holding company, and its subsidiaries (other than CIIH Group) and received rental income. The terms and conditions of these tenancy agreements were negotiated on an arm's length basis and were entered into on normal commercial terms.

(ii) The Group paid a training fee to CIHK for providing training services to Directors, employees, agents and sales representatives of the Group. The training fee charged by CIHK was determined by reference to market prices and will be based on the proportion of the number of persons from the Group that receive the training services to the total number of persons to which the training services are provided and/or other reasonable bases as may be determined by the Group and CIHK.

(iii) The Group ceded gross written premiums to China Insurance Company (U.K.) Limited ("CICUK") and China Insurance (Macau) Company Limited ("CIC Macau"), subsidiaries of CIHK and received commission and claims recoveries and made other related payments. The terms and conditions of these reinsurance contracts were similar to those offered by the third party ceding companies and were negotiated on an arm's length basis and were entered into on normal commercial terms.

CIIH Group

(iv) The Group ceded gross written premiums to China International Reinsurance Company Limited ("CIRe"), a subsidiary of CIIH and received commission and claims recoveries and made other related payments. The terms and conditions of these reinsurance contracts were similar to those offered by the third party ceding companies and were negotiated on an arm's length basis and were entered into on normal commercial terms.

(v) The Group paid investment management fees and performance bonus fees to China Insurance Group Assets Management Limited ("CIGAML") and Tai Ping Asset Management Company Limited ("TPAML"), subsidiaries of CIIH, for provision of investment consultancy services. The fees were calculated on the basis of (a) a certain percentage of the increase in the net asset value of the investment fund; and/or (b) a performance bonus fee representing a certain percentage of the amount of net investment return at the end of the relevant calendar year in excess of an amount equivalent to a certain percentage of the daily average balance of the settlor's subscription monies or the increase in the net asset value of the relevant investment fund managed by CIGAML; and/or (c) such other bases as may be agreed by the parties to the investment management agreement.

(vi) The Group leased a number of offices, units in Ming An Plaza and a car parking space to CIIH Group and received rental income. The terms and conditions of these tenancy agreements were negotiated on an arm's length basis and were entered into on normal terms.

(Expressed in Hong Kong dollars)

34 Material related party transactions (Continued)

(a) Recurring transactions with related parties (Continued)

Notes: (Continued)

CK Group

(vii) The Group received gross written premiums from CKH and its associates. The general insurance businesses were effected on terms and conditions that are comparable to those offered by the Group to independent third parties, and were on normal commercial terms and on an arm's length basis and in accordance with the Group's risk management policy.

(viii) Pursuant to a master marketing services agreement dated 7 December 2006, AMTD Financial Planning Limited ("AMTDFL") and AMTD Direct Limited ("AMTDD"), associates to CKH, were to provide marketing services and promote certain designated insurance products to selected customers, based on the agreed criteria and to launch regular telemarketing campaigns designed to introduce certain designated insurance products. In return, AMTDFL and AMTDD charged the Group a service charge of approximately 75% of the gross premium underwritten through this call centre. The service charge consisted of the following components:

- facility rental fee which summed up to approximately 45% of the gross written premium underwritten through the call centre.

- commission of 30% of the gross written premium underwritten through the call centre. This was in line with the typical commission rate charged by brokers in the Hong Kong insurance market.

The master marketing services agreement was negotiated on an arm's-length basis and was entered into on normal commercial terms.

(ix) Pursuant to a master insurance brokerage agreement dated 7 December 2006, AMTDD Risk Management Limited ("AMTD Risk Management"), an associate of CKH, agreed to enlist us on their list of insurers for referral/introduction and invitation for render for their corporate clientele. AMTD Risk Management received brokerage fee for provision of insurance brokerage services to the Group. The agreement was negotiated on an arm's length basis and was entered into on normal commercial terms.

(b) Non-recurring transactions with related parties

	Note	**2006**	2005
		$	$
Transactions with CI Group			
Management fee	(i)	**(19,260,000)**	(6,850,000)
Gain on disposal of a fellow subsidiary	(ii)	**1**	–
Sale of an insurance receivable	(iii)	**–**	–
Loss on disposal of a subsidiary	(iv), (v) and (vi)	**(1,101,819)**	–
Loss on disposal of an associate	(vii)	**(231)**	–
Gain on transfer of a loan receivable	(viii)	**1**	–

34 Material related party transactions (Continued)

(b) Non-recurring transactions with related parties (Continued)

Notes:

(i) The Group paid a management fee to CIHK for managing the operations of the Group. The management fee was charged at a rate ranging from 0.1% to 0.6% of the net assets of Ming An Hong Kong, a subsidiary of the Group, for basic management charge and at a rate of 1% to 1.5% of the profit before tax of Ming An Hong Kong for risk management charge. The fee has been terminated since July 2006.

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

(iii) Pursuant to an agreement for the sale and purchase of insurance receivable dated 2 June 2006, a fellow subsidiary of the Group, agreed to purchase an insurance receivable with a net book value of $885,530,116 owed by a third party reinsurer to the Group, which is a state-owned entity in the PRC. The amount was fully settled in cash on 30 June 2006 (see note 20).

(iv) Pursuant to an agreement dated 30 May 2006, Onah, a subsidiary of the Group, agreed to transfer its 60% interest in Richtex, a subsidiary of the Group, with a zero net book value, at a consideration of $1 and a shareholder's loan of $15,331,126 owed by Richtex to Onah at a consideration of $1 to China Insurance Group Investment Holdings Co. Ltd ("CIGIH"). The shareholder's loan was considered irrecoverable and was fully provided for in the financial statements in previous years. The transaction has resulted in a gain on disposal of the subsidiary and transfer of the shareholder's loan amounting to $3 after taking into account the post acquisition reserve.

(v) Pursuant to an agreement dated 30 May 2006, Chellink agreed to transfer its 40% interest in Richtex with a zero net book value after provision, at a consideration of $1 to CIGIH. The transaction has resulted in a gain on disposal of subsidiary of $1.

(vi) Pursuant to an agreement dated 30 May 2006, Ming An Hong Kong agreed to transfer its 100% interest in Sermax, with a net book value of $1, at a consideration of $2 and a shareholder's loan of $1,758,424 after provision owed by Sermax to Ming An Hong Kong at a consideration of $1,757,839 to CIGIH. The consideration was determined with reference to the net asset value of Sermax as at the date of disposal. The transaction resulted in a loss on disposal of subsidiary of $1,101,819 after taking into account the post acquisition reserve.

(vii) Pursuant to an agreement dated 19 May 2006, Ming An Hong Kong agreed to transfer its 30% interest in Sanlink at a consideration of $4,341,000 and a shareholder's loan in the aggregate amount of $9,660,000 owed by Sanlink to Ming An Hong Kong at a consideration of $9,660,000 to China Insurance Group Investment Co. Ltd ("CIGI"). A loss of $231 was incurred on the disposal of subsidiary after taking into account the share of profits in previous years.

(viii) Pursuant to an agreement dated 1 June 2006, Chellink agreed to transfer a loan of $26,526,384 owed by a third party company to Chellink at a consideration of $1 to CIGI. The debt was considered irrecoverable and was fully provided for in the Financial Information in previous years. The transaction has resulted in a gain of $1.

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

(Expressed in Hong Kong dollars)

34 Material related party transactions (Continued)

(c) Transactions with other state-owned enterprises in the PRC

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

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

– insurance and other intermediary services; and

– rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as underwriting insurance contracts and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships and the significance of the transactions with other state-owned entities, the Directors are of the opinion that none of other transactions are material related party transactions that require separate disclosure.

(d) Outstanding balances with related parties

	Due from related parties		**Due to related parties**	
	2006	2005	**2006**	2005
	$	$	**$**	$
CI Group	**377,292**	276,007	**25,694**	77,651
CIIH Group	**86,257,205**	116,274,787	**333,372**	151,160
CK Group	**14,736,036**	–	**–**	–

The balances with the CI Group, CIIH Group and CK Group are unsecured, interest-free and have no fixed terms of repayments.

(e) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's Directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11 is as follows:

	2006	2005
	$	$
Short-term employee benefits	**18,596,639**	7,449,043
Post-employment benefits	**723,026**	475,136
	19,319,665	7,924,179

Total remuneration is included in "staff costs" (see note 8(a)).

(Expressed in Hong Kong dollars)

35 Accounting estimates and judgements

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

– Realisation of deferred tax assets;

– Fair value and impairment of available-for-sale securities;

– Provision for outstanding claims; and

– Provision for unexpired risks.

Key sources of estimation uncertainty, including assumptions and key risk factors, and critical judgements in relation to these accounting policies are set out in notes 9, 19 and 22.

36 Parent and ultimate holding companies

The Directors consider the parent company and the ultimate holding company at 31 December 2006 to be CIHK (incorporated in Hong Kong) and CIHC (established in the PRC) respectively. Neither of them produces financial statements available for public use.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of the consolidated financial statements, the HKICPA has issued the following amendments, which are relevant to the Group and not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these consolidated financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

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

38 Non-adjusting post balance sheet event

Pursuant to the international underwriting agreement dated 15 December 2006, the Company granted an option ("Over-allotment Option") to Credit Suisse (Hong Kong) Limited, the sole lead manager of Global Offering, whereby the Company was required to allot and issue up to an aggregate of 105,050,000 additional shares to cover over allocation in the international offering. The exercise price per share for the Over-allotment Option is $1.88. On 3 January 2007, the Over-allotment Option was fully exercised and, as a result, the Company issued 105,050,000 additional shares on 8 January 2007.

The proceeds of $10,505,000, representing the par value, have been credited to the Company's share capital. The remaining proceeds of $186,989,000 have been credited to the share premium account.

39 Subsequent financial statements

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to 31 December 2006.